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Housing and Business Investment in Nebraska's Non-metropolitan Communities and Declining Urban Neighborhoods

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HOUSING AND BUSINESS INVESTMENT IN NEBRASKA

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Full responsibility for content and accuracy rests, of course, with the Center and its staff.

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INTRODUCTION

In Resolution 53 of the 1975 Legislative Session the Nebraska State Legislature recognized the need to analyze all available options for dealing with the problem of urban redevelopment, lack of adequate housing, revitalization of older business districts, and the need for incentives for investment in older neighborhoods in Nebraska. Accordingly, Resolution 53 directed the Legislature's Urban Affairs Committee to study the problem of urban redevelopment including:

- The causes of urban decay
- Current Federal and State programs in urban redevelopment
- The laws and programs of other states that encourage redevelopment
- Incentives to encourage urban redevelopment
- The need for changes in Nebraska law.

Objectives of this Study

This study focuses on one subject area of the Urban Affairs Committee's charge: housing and business investment in Nebraska's declining urban neighborhoods and non-metropolitan communities. From its beginning the study has had two primary objectives:

> First, to ascertain the demand for housing and business investment funds in the declining urban neighborhoods of Nebraska's two major metropolitan cities, Omaha and Lincoln, and in the State's non-metropolitan communities; and the perceptions of homeowners, renters, landlords and businessmen in these communities and neighborhoods regarding the availability to them of such funds.
>
> Second, to identify factors which discourage or hamper housing and business investment in the declining urban neighborhoods of Omaha and Lincoln and in the State's non-metropolitan communities, and to recommend legislation and other measures to eliminate

such factors and to provide incentives for increased investment in these neighborhoods and communities.

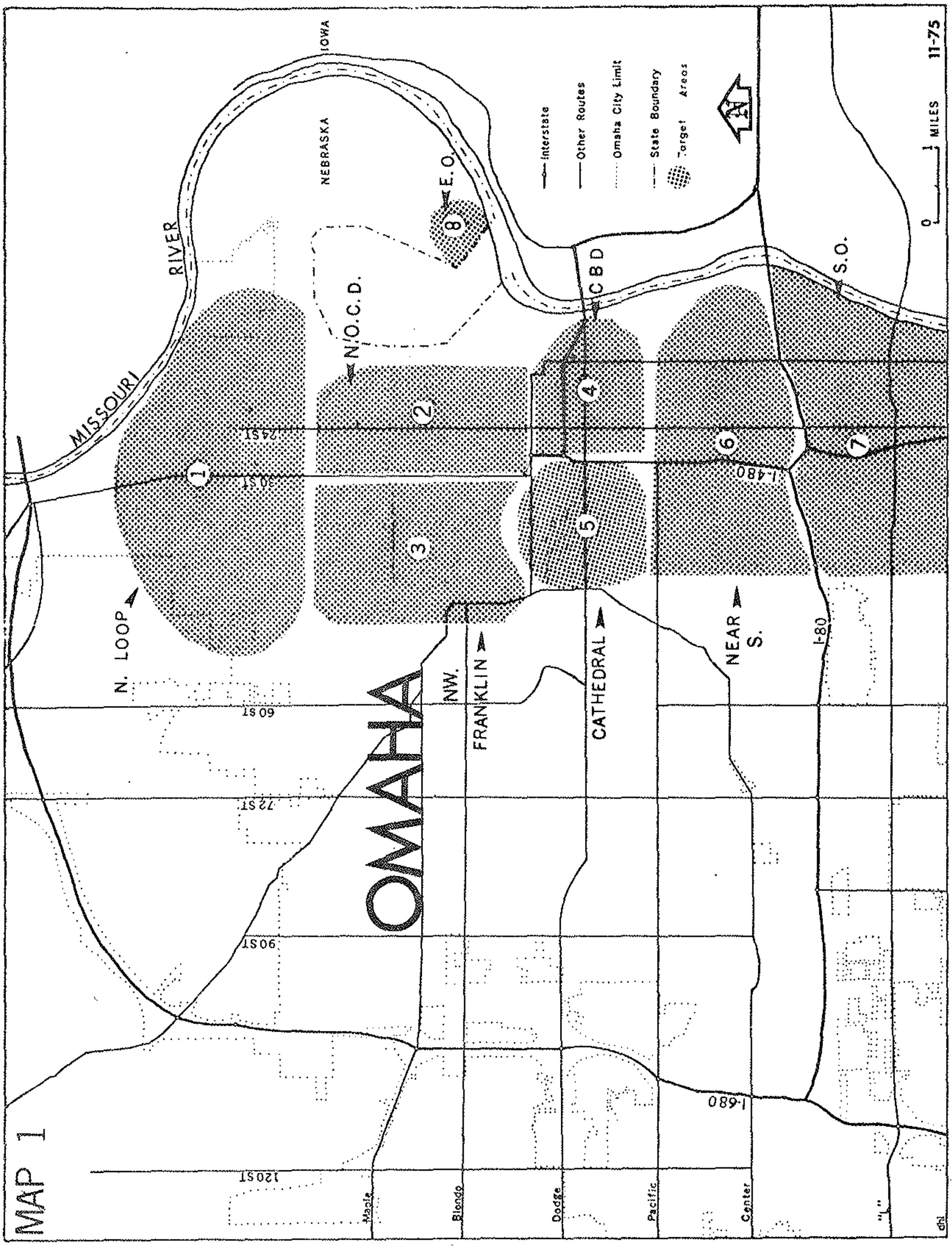
Approach of the Study

In the approach adopted to achieve these objectives the first step was to conduct a survey of the literature to determine what research by other organizations and individuals might be applicable to Nebraska's situation. Key reports and publications by Federal agencies, legislative committees and executive departments of other states, research institutions, universities and other organizations or individuals were analyzed and evaluated in terms of the possible application of their findings and conclusions to the declining urban neighborhoods of Omaha and Lincoln and Nebraska's non-metropolitan communities.

The second step was to investigate housing and business investment practices in Omaha's and Lincoln's declining urban neighborhoods to determine the terms and availability of financing for housing and business investment, barriers to investment and the current practices of lending institutions with respect to these neighborhoods. In-depth interviews were conducted with representatives of 24 lending institutions in Omaha and 15 in Lincoln to identify their investment and financing practices in these neighborhoods and the reasons for them. Interviews with homeowners, renters, landlords and businessmen in the declining urban neighborhoods of Omaha and Lincoln were also conducted to ascertain the demand for housing and business investment funds in these neighborhoods and their perceptions regarding the availability to them of such funds.

The areas delineated by the City of Omaha as eligible for Community Development Block Grant funds from the U.S. Department of Housing and Urban Development (HUD) were taken as defining Omaha's "declining urban neighborhoods." These are shown on Map 1. In Lincoln, the four census tracts (1, 4, 7, and 31) in which most of the first-year HUD Community Development Block Grant funds were committed were used for this purpose. These are shown on Map 2.

Third, the CAUR staff investigated housing and business investment practices and attitudes regarding them in the five non-metropolitan communities of Lexington, Broken Bow, Hartington, Beatrice and Columbus. "Non-metropolitan communities" are all those cities, towns and rural communities


MAP 1
OMAHA
MISSOURI
RIVER
IOWA
NEBRASKA
N. LOOP
NW.
FRANKLIN
CATHEDRAL
NEAR S.
C B D
N.O.C.D.
E.O.
S.O.
1
2
3
4
5
6
7
8
24 ST
30 ST
60 ST
72 ST
90 ST
120 ST
I-480
I-80
I-680
Maple
Blondo
Dodge
Pacific
Center
"L"
Interstate
Other Routes
Omaha City Limit
State Boundary
Target Areas
0
1 MILES
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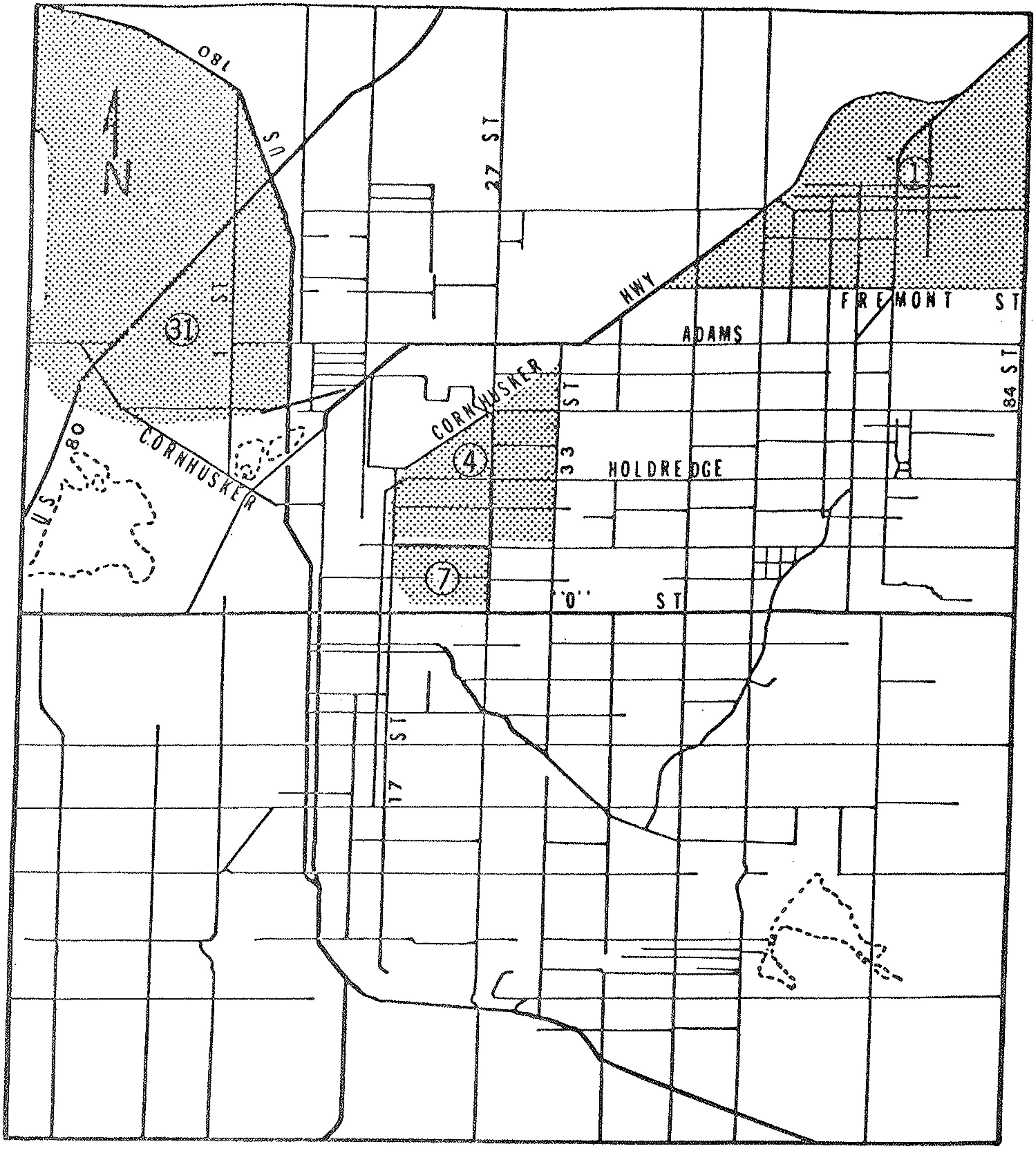
LINCOLN

MAP 2



dhl

TARGET AREAS

which are under 50,000 in population and lay outside the metropolitan areas of Omaha and Lincoln and Sioux City, Iowa.

These five communities were selected in consultation with officials of the Nebraska Department of Economic Development as representing a good cross-section of the State's non-metropolitan communities with relatively strong housing and business investment institutions. Their locations are shown on Map 3.

In-depth interviews were conducted to identify the availability of housing and business investment funds in non-metropolitan communities, current lending practices and reasons regarding them, and the extent to which prevailing practices and attitudes may be hampering the growth of the State's non-metropolitan communities. Those interviewed were 27 knowledgeable local residents, businessmen and governmental officials, and representatives of 11 financial institutions.

Fourth, the CAUR staff interviewed ten city and county governmental officials in Omaha and Lincoln, four State and three Federal officials to identify current governmental policies and practices at all these levels affecting the availability of housing and business financing in the State's declining urban neighborhoods and non-metropolitan communities.

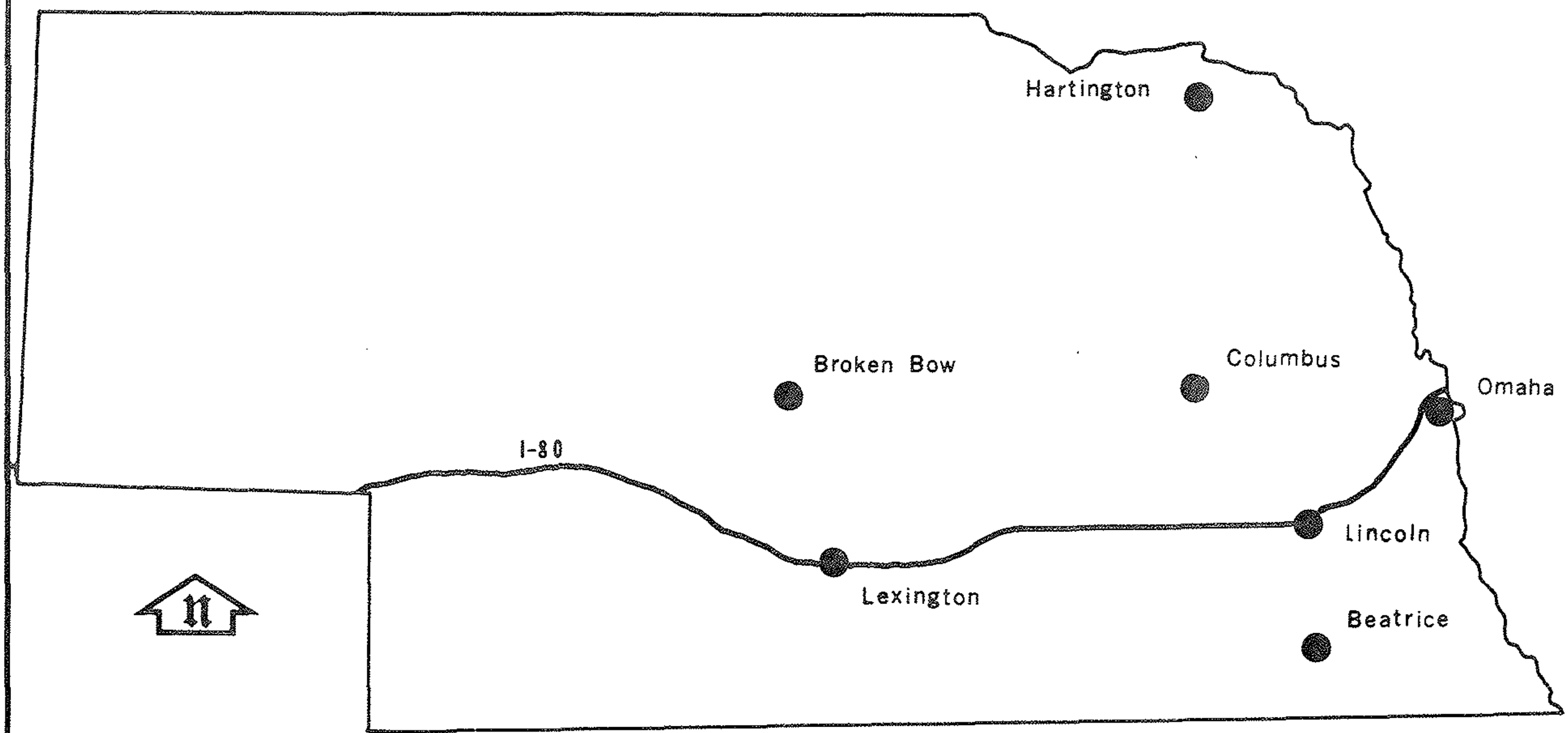
The methodology utilized in carrying out these surveys and analyses is described in detail in Appendix A, METHODOLOGY, and the questionnaires are included in Appendix B, QUESTIONNAIRES.

Organization of Report

The first chapter deals with the CAUR staff's review of the literature regarding general research nation-wide on the subject of housing and business investment in declining urban neighborhoods and non-metropolitan areas. It seeks to evaluate the relevance of this previous research on the problems of housing and business investment to these problems as they exist in Nebraska.

The second chapter describes how homeowners, renters, landlords and businessmen in the declining urban neighborhoods of Omaha and Lincoln perceive the availability to them of housing and business investment funds and seeks to gauge the level of demand in these neighborhoods for such funds.

The third chapter presents the results of the field surveys of financial institution representatives on housing and business investment practices in



COMMUNITIES SURVEYED

NEBRASKA

MAP 3

0 20 miles

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Omaha's and Lincoln's declining urban neighborhoods and barriers to investment in these neighborhoods as seen by the financial institutions.

The fourth chapter presents the results of the survey of prominent residents, businessmen, governmental officials and representatives of financial institutions in the five non-metropolitan communities of Lexington, Broken Bow, Hartington, Beatrice and Columbus. It seeks to gauge the availability of housing and business investment funds in non-metropolitan communities, the current lending practices of financial institutions in those communities and the reasons for them, and the extent to which prevailing lending practices and attitudes may be hampering the growth of the State's non-metropolitan communities.

Chapter five summarizes the views of all the individuals, representatives and officials interviewed regarding what can and should be done to encourage greater housing and business investment in the declining neighborhoods of Omaha and Lincoln and in the State's non-metropolitan communities.

Chapter six presents the recommendations of the CAUR staff for legislation and other measures to eliminate barriers to and provide incentives for increased investment in these declining urban neighborhoods and non-metropolitan communities.

Chapter I

A REVIEW OF THE LITERATURE

Neighborhood decline and disinvestment (and redlining) are not new phenomena. Nor is the relationship between them simple. Consequently the literature is extensive, but contradictory and incomplete. Most experts will admit that the active presence of institutional lenders such as commercial savings banks and savings and loan associations in the housing markets of inner city neighborhoods is essential to the continued viability of these neighborhoods. But there is disagreement whether the disinvestment decisions of these financial institutions are a prime cause of decline or primarily an effect of the decline and therefore no more than a contributing cause.

The literature examining the existence of disinvestment and redlining is varied: studies by governmental regulatory agencies, by involved interest groups with either local or national constituents and by academic experts.

The proposed solutions are equally varied. Some of the solutions provide incentives to increase investment in declining urban areas or to otherwise remove the causes of urban decay. Other solutions provide penalties for violation of fundamental or constitutional rights of all Americans. Actions have been taken by all levels of government--Federal, state, and local. Private groups ranging from community action groups to consortia of lenders, acting independently or with each other and with governmental agencies, have also responded.

Part A of this review of the literature examines causes and effects of disinvestment as discussed by some of the leading experts on the problem. Part B reviews studies which have attempted to document the existence of disinvestment and redlining. Part C briefly reviews data which indicate that the problem is a rural as well as an urban phenomenon. Part D notes the limited data on disinvestment in urban Nebraska. Part E briefly reviews remedies taken to prevent, halt or reverse housing and business disinvestment and Part F states conclusions.

A. Disinvestment: Causes and Effects

The terms disinvestment and redlining have been used more often than defined. Even the simple definition of disinvestment as low investment in an area provides insight into the cycle of urban deterioration.

The concept of disinvestment may be tied to a more extensive typology of stages of investment, as suggested by an Urban League report. Their typology ranged from full investment through disinvestment and uninvestment to reinvestment. Their usage refers, respectively, to adequate institutional financing, a reduction in such financing, practically no institutional financing, and the stage in which there is a renewal of investment in an area.

The methods of measuring the level of investment in an area have differed. Many related the level of mortgage or lending activity in a neighborhood or city to other nearby areas such as the remainder of the SMSA.[1] When these data are developed and displayed over time a decline in urban investment, either in absolute dollars or the proportion, often becomes evident. Some studies have used the proportion of an area's loans insured by the Federal Housing Administration (FHA) as an indication that financial institutions are ignoring an area. Others have defined disinvestment in terms of the ratio of deposits to loans, so that an area which has a higher proportion of deposits than loans is designated a disinvested area.[2] Information on deposits, however, is usually available only for areas such as cities or SMSA's.

The definitions of disinvestment usually do not specify the level necessary to label an area as disinvested. Even if specified, however, the factors involved may merely reflect a lack of demand which in turn reflects the nature of the population and property in the neighborhood. In other words, a few people wish to borrow money either to buy or rehabilitate homes or businesses in the area. Or there may be a demand for money, but few loans made because individuals cannot qualify for credit or because the property is not deemed adequate collateral for the loan. A disproportionate concentration of such people or property in an area would also

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[1] Examples are cited in the next section.

[2] For example, Rev. Roger Coughlin, "Redlining and Disinvestment: The Death of Communities," Charities USA, II:1 (January, 1975).

result in low investment in that area. Rarely have studies of disinvestment attempted to measure real demand.

Finally, however, an area may receive little investment because financial institutions are basing their decisions on the geographical area without regard to the credit worthiness of the individual applicant or the quality of the specific property. The latter has been labeled redlining by a number of authors.[3]

George Sternlieb's excellent survey, "The Urban Financing Dilemma" suggests there are two major causes of disinvestment: spatial-racial discrimination and economic forces.[4] Spatial discrimination refers to the bias that lenders have against urban areas (especially the inner city), preferring suburban locations instead.

Although much has been written about racial discrimination in financing, it is frequently difficult to differentiate the racial factors from correlative economic factors. A number of studies have detailed the element of racial discrimination in lending practices. An apparently clear instance of racial discrimination in lending was discussed in "Mortgage Disinvestment in Northwest Philadelphia,"[5] which found that the proportion of mortgages granted by institutional lenders decreased sharply in Northwest Philadelphia between 1960 and 1972 while it remained relatively constant in the Northeastern area. The two areas had similar income levels, occupational-class structure, educational level, and quality of housing (as measured by median value, proportion vacant, and proportion owner-occupied) in both 1960 and 1970. But the areas differed sharply in their racial composition; the Northeast remained virtually all white, while the non-white population in the Northwest increased from 18 percent in 1960 to 46 percent in 1970. The study, therefore, concluded that institutional lenders in the Northwest

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[3]For Example, Michael A. Agelasto, Geographical Discrimination in Mortgage Lending (Redlining) (Washington, D.C.: Congressional Research Service, 1975).

[4]George Sternlieb, "The Urban Financing Dilemma," in Committee on Banking, Housing and Urban Affairs, United States Senate, Hearings on Home Mortgage Disclosure Act of 1975 (Washington, D.C.: U.S. Government Printing Office, 1975), pp. 547-567.

[5]Northwest Community Housing Association, Inc. Mortgage Disinvestment in Northwest Philadelphia (Philadelphia: Northwest Community Housing Associations, Inc., 1973).

area "have been considering racial composition in determining mortgage risk."[6] But even this study found the relationship between race and lending activity a complex one. A nearby Philadelphia area with similar characteristics and a racial composition changing from 21 percent non-white to 41 percent non-white maintained a high proportion of mortgages granted by institutional lenders. This led the author to speculate that, "...institutional lenders consider a neighborhood a bad risk with respect to granting of mortgages merely because the number of non-whites increases, unless the community has gained a reputation...for having passed through the transition stage and become racially stable."[7]

Sternlieb points out that the racial attitudes of the loan officers are compounded by communication problems between the lenders and applicants and the fear that making a faulty loan may have a greater adverse impact upon a loan officer's career than the failure to make a good loan.

Several economic factors lead to lender reluctance to grant loans in certain neighborhoods. First, administrative costs are higher where vandalism or loan repayments are a problem because of the increased amount of paperwork involved. Similarly, the fixed cost to administer a loan means that a lender's administrative costs will be less on two $25,000 loans than on five $10,000 loans. A second economic factor is repayment difficulties involving direct costs as well as higher administrative costs; Sternlieb notes, "There is mixed evidence about the track record of urban loans; evidence in some cases indicates no more repayment difficulties than with non-urban loans, while other studies reveal the reverse is true."[8] The record of testimony before congressional committees on the Mortgage Disclosure Act provides several examples of lenders with extensive loan experience in minority or transition areas who had no foreclosures or rates similar to those of lenders with few loans in declining areas. Regardless of this reality, lenders fear foreclosure and the property disposition problems that go with it.

Not only do loan requests from persons in declining urban areas face these economic disadvantages, they also compete with other economic

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[6] Ibid., p. 18.

[7] Ibid., p. 24.

[8] Sternlieb, op. cit., p. 568

opportunities which may have less risk and might even provide higher profits. Restrictions on loans to these areas are especially likely when there is national credit rationing.[9]

The causal chain that emerges from Sternlieb and other experts sees disinvestment in an area leading to increased costs for the borrower which in turn leads to inadequate maintenance or rehabilitation which in turn may lead to abandonment of the property and the decay of the entire area. Other consequences of the cost squeeze may be subdividing and overcrowding in an attempt to improve profitability. Similarly, with little hope of regaining costs through sales to owner-occupants or through refinancing, owners may neglect their property or sell to speculators who have the needed capital or who are able to gain credit from financial institutions. These speculators, eager to maximize their profit, may do little to maintain their property, and the result is the urban blight and decay noted earlier.

Other causes for the unwillingness or inability to improve or maintain property include tenants' abuse, governmental policies concerning codes, and current tax policies. There are causes other than the cost squeeze on owners for the blight one finds in many inner-city areas. The social instability of these areas is accompanied by high crime rates and governmental units have been known to provide less than equitable service to these areas. All of these factors act to reinforce the cycle of disinvestment and decline.

B. Studies Documenting the Existence of Redlining

Methods of Redlining

The term "redlining" derives from the extreme practice of drawing a red line on a map to indicate an area in which loans would be denied. The U.S. Senate Banking Committee after hearings on the Mortgage Disclosure Act of 1975 concluded, "The Committee has no evidence that any lenders literally wield red pencils nowadays, but the result is the same. Often, the process is very subtle."[10]

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[9] Kerry D. Vandell, Barbara Silbert Hodas, Rachel Bratt, Financial Institutions and Neighborhood Decline: A Review of the Literature (Washington, D.C.: Federal Home Loan Bank Board, 1974).

[10] Committee on Banking, Housing and Urban Affairs, United States Senate, Report on Home Mortgage Disclosure Act of 1975 (Washington, D.C.: U.S. Government Printing Office, 1975), p. 3.

Eleven of these subtle methods of redlining were outlined in the report of the Governor's Commission on Mortgage Practices, Home Ownership in Illinois: The Elusive Dream:

1. Requiring down payments of a higher amount than are usually required for financing comparable properties in other areas.

2. Fixing loan interest rates in amounts higher than those set for all or most other mortgages in other areas.

3. Fixing loan closing costs in amounts higher than those set for all or most other mortgages in other areas.

4. Fixing loan maturities below the number of years to maturity set for all or most other mortgages in other areas.

5. Refusing to lend on properties above a prescribed maximum number of years of age.

6. Refusing to make loans in dollar amounts below a certain minimum figure, thus excluding many of the lower-priced properties often found in neighborhoods where redlining is practiced.

7. Refusing to lend on the basis of presumed "economic obsolescence" no matter what the condition of an older property may be.

8. Stalling on appraisals to discourage potential borrowers.

9. Setting appraisals in amounts below what market value actually should be, thus making home purchase transactions more difficult to accomplish.

10. Applying structural appraisal standards of a much more rigid nature than those applied for comparable properties in other areas.

11. Charging discount "points" as a way of discouraging financing.[11]

Ten Redlining Studies

Studies attempting to document disinvestment or redlining have been conducted in a number of cities, by a variety of groups, using several different methodologies. This section briefly examines ten of these studies.

Only one of these studies did not use actual loan data to determine whether redlining was practiced in a city. The Reinvestment Committee of Milwaukee Alliance of Concerned Citizens used the interesting technique of

[11] Govenor's Commission on Mortgage Practices, Home Ownership in Illinois: The Elusive Dream (Springfield; Governor's Commission on Mortgage Practices, 1975), pp. 15-16.

calling or visiting banks and asking for loan terms on a house currently being advertised.[12] The caller provided the loan officer with a brief description of the property (i.e., single or duplex), location, and asking price. "On the basis of this information alone, the majority of lending institutions would either refuse to consider such a loan or would offer less than standard mortgage terms, both of which are aspects of redlining. They didn't bother to inquire about the applicant's credit or earning potential."[13] Of 76 requests to 38 financial institutions for loans on west side Milwaukee properties, 63 percent denied and 25 percent were offered less than standard terms. In contrast, of 21 savings and loans contacted about property in a better Milwaukee neighborhood, virtually all offered terms of five to ten percent and up to 30 years to pay.

Most other studies relied on real estate mortgage data reported by real estate service companies, official public records, or directly by banks. Most of these studies defined disinvestment or redlining in terms of a high proportion of federally insured mortgages and a low proportion of conventional mortgages. For example, the Illinois Governor's Commission on Mortgage Practices relied on the 1971 Survey of Real Estate Appraisers' reports on real estate mortgage loans. Maps were drawn classifying the areas into three groups: those in which two-thirds or more of the loans were conventional mortgages, those where two-thirds or more of the loans were federally insured, and those in between. (A fourth group, largely on the south side were excluded because banks there did not report to the Survey.) The Commission concluded "that a pattern of redlining (disinvestment) is indicated by the maps."[14]

A study of three Cincinnati neighborhoods prepared for the Coalition of Neighborhoods used publicly recorded data for sample blocks within these areas over an extensive period of time. They found that the predominately black neighborhood and the racially changing one received fewer conventional loans and more publicly guaranteed (FHA and VA) funds than did the white

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[12] Milwaukee Alliance of Concerned Citizens, Red-Lining on Milwaukee's Westside (Milwaukee: Milwaukee Alliance of Concerned Citizens, n.d.)

[13] *Ibid.*, p.9

[14] *Op. cit.*, p. 10

neighborhood. From 1967 to 1974 the proportion of conventional mortgages was 17 percent, 15 percent and 62 percent respectively. The neighborhoods differed in racial composition, but according to the census had similar levels of education, occupations, housing conditions, average value of homes, and proportions of owner-occupied housing.[15]

In Baltimore, all real estate transactions are recorded in Lusk's Maryland Real Estate Guides. This has led to several studies. A simple use of the 1974 data was made by the Citizens Planning and Housing Association. Besides reporting the loan activity in the cities and counties of each financial institution in the area, they classified the activity in terms of (1) FHA-VA loans, (2) private, (3) cash, and (4) conventional loans. In 1974, 21 percent of the real estate transactions in the city were FHA-VA, compared to 34 percent conventional, 16 percent private, and 29 percent cash. In contrast, the County (or suburbs) had more conventional loans (59 percent), and less private financing (9 percent), and less cash transactions (10 percent), but about the same proportion of FHA-VA financing (22 percent). The record of conventional lenders in the City of Baltimore improved late in the year after local legislators tied their support for a raise in usury law limitations to increased lending activity in the City.[16]

A more complex analysis of these data for the City for 1970-1972 was conducted by Baltimore's Department of Housing and Community Development. Their analysis included a complex classification of the predominant real estate transaction patterns in each census tract into six categories. They also developed an Index of Financial Vitality based upon a positive weighting for conventional loans, and a negative weighting for FHA or private financing, cash transactions, and blanket sales (i.e., multiple properties sold to a single purchaser); high turnover was also negatively weighted. Neighborhoods with low index scores also had high proportions of poverty families, low median incomes, high proportions of blacks, and relatively low levels of home ownership.[17]

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[15] Debra S. McKee, Housing Analysis in Oakley, Bond Hill, and Evanston (January 1960-April 1974) Financial Investment Patterns (Cincinnati: Coalition of Neighborhoods, 1974).

[16] Citizens Planning and Housing Association, 1974 in Retrospect: A Review of the Baltimore Mortgage Market (Baltimore: Citizens Planning and Housing Associations, 1975).

[17] Department of Housing and Community Development, Home Ownership and the Baltimore Mortgage Market (Baltimore: Department of Housing and Community Development, 1974).

The study concluded, "It was found that lower home ownership, fewer conventional mortgages, more blanket sales, and various other indicators in black areas implied a pattern of neglect of the black segment of the market by conventional lenders. Government programs such as the FHA insurance program have helped to fill the gap, but the lower home ownership rates in black areas reflect the continuing nature of the problem."[18] But they presented some other data which could be interpreted to indicate that income is a more crucial variable than race. The data, reproduced in Table 1 below, show that when the average income in an area is above $12,000, predominately black areas have almost the same proportion of conventional loans as predominately white areas (54 percent and 56 percent, respectively). In general, Table 1 indicated a larger income effect than race effect--i.e., there are larger differences between income categories when holding race constant than there are among racial composition categories when holding income constant.[19]

TABLE 1

CONVENTIONAL MORTGAGE PERCENTAGE-SHARE-OF-MARKET

Income	Less Than 10 Percent Black	10-59 Percent Black	60-89 Percent Black	90-100 Percent Black
$0-7,999	17	12	12	7
$8,000-9,999	38	24	25	18
$10,000-11,999	55	33	29	31
$12,000	56	43	40	54

A study of Rochester by a community action group used the proportion of mortgages financed privately rather than from financial institutions as its measure of disinvestment. It found that in March 1974, 40 percent of all mortgages in Rochester were financed privately, compared to 15 percent

[18] *Ibid.*, p. 58.

[19] *Ibid.*, p. 59.

in the suburban portions of the county. Within the city the proportion varied from 9 percent to 89 percent.[20]

A study prepared for the National Urban League examined mortgage disinvestment in the Bronx between 1960 and 1970.[21] They presented a variety of data. For the 12 banks which had one or more branches in Bronx County and their main office in the Bronx or an adjacent county, they found that mortgage activity (value) in the Bronx increased 2 percent between 1960 and 1970 compared to an increase of 28 percent in their total mortgage activity (value). For the three banks which provided detailed data, the number and value of their Bronx mortgages as a proportion of their total mortgage activity declined sharply.

But they went beyond these data, examining the geographical location of the loans within the Bronx and the characteristics of those neighborhoods. Their regression analysis showed, "...in 1960 the number of blacks and Puerto Ricans had no bearing on mortgage lending by these institutions in Bronx County. The number of 1-4 family homes and the rent level, on the other hand, were most significant. For 1970...rent level, the proportion of 1-4 family homes, <u>and the number of blacks and Puerto Ricans in each Community Planning District</u> proved to be statistically significant variables."[22] At a minimum, the authors concluded, it indicated that by 1970 race could not be asserted to have no significant bearing on mortgage lending. Banks avoided what they perceived to be an increasingly risky situation.

A study of St. Louis used mortgage data (excluding loans over $100,000) for 1960, 1965, 1972, and 1974. Their data indicated a sharp drop in loans for the city, and although each of the eleven areas declined, some exhibited greater declines than others. Some attempt was made to link the level of mortgage activity to the total amount of deposits. For the City of St. Louis the ratio of loans under $100,000 to deposits was less than one-tenth the

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[20] <u>Hearings on Home Mortgage Disclosure Act of 1975</u> <u>op</u>. <u>cit</u>., pp. 1248-54.

[21] Richard J. Devine, Winston O. Rennie, and N. Brenda Sims, <u>Where the Lender Looks First: A Case Study of Mortgage Disinvestment in Bronx County, 1960-1970</u> (New York: National Urban League, 1973).

[22] <u>Ibid</u>., p. XI. Emphasis in the original.

ratio for St. Louis County and one-thirtieth for neighboring St. Charles County.[23]

Similarly, a study of mortgage activity in Washington, D.C., compared the proportion of total metropolitan area loans that went to the District. They found that less than 12 percent of the real estate loans made by District of Columbia savings and loan associations were made in the District (five institutions ignored the City Council's request for data), and that this figure dropped to 7.4 percent if clustered loans (reflecting condominiums) and loans over $100,000 were excluded. Within the District, four predominantly white zip code areas received 40 percent of the District's loan activities (they had 14 percent of the population), while four predominantly black zip code areas with 28 percent of the population received only 7.7 percent of the loans.[24]

Critics of the study pointed out that it should have included the value of the homes in its calculations. Similarly, analysis of the data indicates that the median proportion of owner-occupied housing units and the proportion of 1-4 family units are higher for zip code areas with a disproportionately higher loan to population ratio than for zip code areas with a disproportionately lower loan to population ratio.

Finally, a study of disinvestment in Los Angeles was done using savings and loan disclosure data required by the State of California. For the first five months of 1974, the extremes of East Los Angeles had $1 per capita in single-family mortgages and 2.6 loans per 10,000 single-family housing units, compared to $617 per capita and 224.4 per 10,000 housing units in Beverly Hills. The study noted that although per capita lending varied greatly with minority composition of the population it varied even more with income levels.[25]

In summary, disinvestment in urban areas has been demonstrated in a number of cities. Several of the studies presented data indicating a

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[23] The Phoenix Fund, Savings and Loan Lending Activity in the City of St. Louis: A Phoenix Fund Update for 1974 (St. Louis: The Phoenix Fund, 1975).

[24] Hearings on Home Mortgage Disclosure Act of 1975 op. cit., pp. 976-999.

[25] The Center for New Corporate Priorities, Where the Money Is: Mortgage Lending, Los Angeles County (Los Angeles: The Center for New Corporate Priorities, 1975).

relationship of disinvestment to racial composition of the area, but several studies indicated that income was an important factor. Lending institutions apparently try to maximize their returns by minimizing their perceived risks. Regardless of the reasons, large portions of many cities have difficulty attracting mortgage funds, although the actual demand for loans rarely has been determined.

C. Rural Aspects of Disinvestment

Disinvestment is not solely an urban phenomena. Rural America is subject to the same process with probably the same effects.

National data on holders of single-family housing mortgages indicate that in 1971 institutional lenders (including banks, savings and loan associations, and insurance companies) held 80.8 percent of the mortgages inside SMSA's compared to 75.5 percent outside SMSA's, and 72.8 percent for towns under 10,000 and rural areas outside of SMSA's.[26]

Another indicator of disinvestment or redlining in rural areas is the less favorable terms available on home mortgages in these non-metropolitan areas. In 1971 the median interest rate on home mortgages by banks and savings and loan associations inside metropolitan areas was 6.0 percent compared to 6.7 percent outside the SMSA. The median term of savings and loan association loans was 24.6 years inside SMSA's compared to 20.4 outside; the median term offered by commercial banks differed even more sharply--22.2 years inside SMSA's compared to 13.6 years outside the SMSA. This difference for commercial banks is especially important as their share of the rural mortgage market is much greater--25.8 percent compared to 14.1 percent inside SMSA's.

The impact upon the homeowner is not insignificant, and some of the consequences of urban disinvestment outlined earlier (especially restraint upon adequate maintenance and rehabilitation) apply here, too. An illustration of the impact can be seen by using the median terms of commercial banks noted above. A $30,000 home with a 20 percent down payment, and the median non-metropolitan interest rate of 6.7 percent and 14 year term

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[26] Morton J. Schussheim, Joshua M. Kay, and Richard Wellons, Rural Housing: Needs, Credit Availability, and Federal Programs (Washington, D.C.: Congressional Research Service, 1974), p.6.

results in monthly payments of $221.20. The same house, with the same down payment, but available with the median metropolitan terms of 6.0 percent interest and 22 year term results in monthly payments of only $163.94.[27]

One cause for the less favorable terms, according to the Senate Report on the Rural Development Act of 1972, is that small town banks limited by small reserves and regulations attempt to maximize their return and minimize their risk by using their money for smaller loans over shorter periods of time and by investment in government bonds. The latter contributes to a flow of money from rural areas to metropolitan centers.

An example of alleged redlining was brought to the attention of Congress during hearings relative to the Rural Development Act of 1972. David Hibler, a professor at the University of Nebraska at Lincoln, complained that virtually all of the 20 Lincoln area financial institutions he contacted in 1971 indicated they were unwilling or unable to provide re-financing for his rural home in Unadilla.[28]

Another study examined the related problem of business credit in rural areas.[29] A sample of 67 businessmen in two rural Nebraska regions indicated that although they used credit as a source of funds for business operations, only one-third reported that credit supplied more than 25 percent of funds used. The results of the survey indicated that small non-farm businesses have difficulty in obtaining adequate amounts of long-term credit for capital expansion. Most respondents indicated a ten-year repayment plan was the maximum length obtainable, with most long-term loans actually having a shorter repayment period.

Survey results also indicated that "big businesses" have better access to a wide range of credit services and can obtain better credit terms than small businesses and that local banks prefer to make loans to other local credit users (primarily agriculture loans) than to small town businesses.

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[27] Ibid., p. 8.

[28] Hearings on Rural Development, Committee on Agriculture and Forestry, United States Senate (Washington D.C.: U.S. Government Printing Office, 1972), pp. 131-9.

[29] Larry Jenssen and Paul Gessaman, Businessmen's Funding Services, Use of Credit and Assessment of Credit System Adequacy in Two Regions of Rural Nebraska, (Lincoln: The Agricultural Experiment Station, 1975).

The authors of this study concluded there was no evidence of serious inadequacies in the existing credit system of the study regions. They did recommend, however, improving the availability of long-term credit for capital investment by businessmen.

Other principal findings from this survey of credit usage were: (1) corporations used more credit proportional to sales than single proprietorships and partnerships; (2) commercial banks were the most frequently reported source from which credit was obtained, but non-local and local wholesalers or suppliers and non-local manufacturers were other credit sources; (3) purchase of inventory was the most widespread use of credit.

D. Studies on Urban Nebraska

In 1972, 31 financial institutions in Douglas County were interviewed concerning their residential lending practices. Only three indicated any geographical restrictions other than the metropolitan area or their service area. Ten, however, indicated they preferred newer homes in newer neighborhoods. In addition, 21 of the 31 placed minimum limits on the amount they would consider lending, with eight of them stating they had a $10,000 minimum.[30]

Dr. J. L. Carrica, the author of the study, concluded,

> "Although lenders feel they are fair to all potential borrowers, they really mean this in terms of the risks to be taken. As stated by many respondents, risks are a function of housing location and ability to pay. High risk is avoided. This means excluding from loan portfolios those properties where neighborhoods are deteriorating, even though the ability to pay may exist."[31]

E. Remedies

Federal Home Mortgage Disclosure Act

The most recent addition to the battery of governmental laws and regulations to combat the problem of disinvestment is the Home Mortgage

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[30] J.L. Carrica, Residential Mortgage Lending Practices of Financial Institutions in Douglas County, Nebraska (Omaha: Creighton University, 1973).

[31] Ibid., p. 17.

Disclosure Act of 1975, which became law in December. It was based on the finding that "some depository institutions have sometimes contributed to the decline of certain geographic areas by their failure...to provide adequate home financing to qualified applicants on reasonable terms and conditions." The purpose of the law is to provide citizens and public officials with information so they can determine whether these depository institutions are fulfilling their obligation to serve the housing needs of their neighborhoods and communities, and to contribute to their decisions on the distribution of public sector investments.

The financial institutions covered by the law are commercial banks, saving banks, savings and loan associations, building and loan associations, homestead associations (including cooperative banks), and credit unions which make Federally related mortgage loans, have assets over $10 million and have an office within a Standard Metropolitan Statistical Area (SMSA).

These financial institutions are required to compile certain information and make it available for inspection at the main office and at one branch office in the SMSA, listed by census tract if such information is readily available at a reasonable cost, or by zip code if it is not. Outside the SMSA only the totals are needed. Required information for mortgages originated or purchased during the year (starting in 1974) includes the number and dollar amount of home improvement loans, mortgage loans secured by residential real property, federally insured mortgage loans, and absentee-owner mortgage loans.

The Federal law does not affect any state or local law unless they are inconsistent, in which case only the inconsistent portion of the non-Federal law is superseded. Enforcement of the law is performed by the appropriate regulatory agency: savings and loan associations by the Federal Home Loan Bank Board, national banks by the Comptroller of the Currency, member banks of the Federal Reserve System (with the exception of national banks) by the Federal Reserve Board, other banks by the Federal Deposit Insurance Corporation. The law also authorizes studies on the feasibility of extending coverage to banks in non-metropolitan areas.

Other Federal Legislation--Housing

The basic Federal solution to the housing problem is Section 203(b) of the National Housing Act which is the basic FHA home mortgage insurance program. This program covers one- to four-family houses and encourages home ownership by reducing risks to the lender which in turn should result in more favorable terms for the loan. To be eligible a property must meet minimum standards and an applicant must be considered credit worthy. The maximum for single-family homes is currently set at $45,000.

Additional programs are available for those with special circumstances. For example Section 203(i) provides mortgage insurance to finance the purhcase of properties in rural areas. Section 220 is available for one- to eleven-family structures in Federally assisted urban renewal or code enforcement areas. Section 221(d)(2) is specifically oriented toward low or moderate income families. Section 235 of the Housing Act establishes a program to stimulate home ownership for lower income families (this program was revised and temporarily reactivated in October 1975). Section 237 authorizes mortgage insurance for those who have an unacceptable credit or income history, but who would become acceptable risks if provided with credit and debt managing counseling.

The Housing Act provides similar programs for insuring home improvement loans. The basic program is outlined in Section 203(k), urban renewal areas are covered under Section 220(h) and low- and moderate-income families are covered under Section 221(h).

Because many properties in older declining urban areas did not meet normal eligibility requirements relative to property location and term of mortgage, the Housing and Urban Development Act of 1968 added Section 223(e) to the National Housing Act. This section waives the "economic soundness" and "economic life" requirements for eligibility.

But for a location to be eligible under Section 223(e),

> ...the area must be reasonably viable and able to support adequate housing for families of lower income levels. Viability means ability to live. The location features adversely affecting the desirability and usefulness of the property must not endanger the health and safety of its occupants. They cannot be expected to terminate the useful physical life of the property over the expected life of the mortgage. Finally the property under consideration must be considered reasonably livable and marketable in light of the alternative housing available to the typical occupant of the area despite the presence of the limiting location influences.[32]

This suggests that some areas may not be eligible for loans even under

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[32] U.S. Department of Housing and Urban Development, "Housing Production and Mortgage Credit-FHA," HUD Handbook 4260.1, December 11, 1972, p. 4-3.

this more liberal Section and that therefore some areas may be subject to disinvestment due to Federal action.

Programs to provide loans for rural housing are available under Title V of the Housing Act. Specifically Section 502 provides loans for housing and home improvements in rural areas (defined as places under 20,000 population). Section 504 covers home repair loans for those whose incomes are too low to qualify for Section 502 assistance. Other rural housing programs are authorized under the Rural Development Act of 1972, and are in the process of implementation. These programs are administered by the Farmers Home Administration of the Department of Agriculture.

Other Federal Legislation--Business

Disinvestment in an urban neighborhood is not confined solely to residential mortgage lending. The lack of available mortgage credit in declining urban neighborhoods is usually associated with a lack of available commercial credit. The Illinois Commission on Mortgage Practices concluded "that redlining in the provision of commercial and consumer loans is destroying the viability of many older urban neighborhoods (communities) in Illinois."[33]

The Federal Government's program to encourage investment in commercial enterprise in these areas includes the Small Business Administration (SBA). The principal objectives of the SBA are to stimulate small business in deprived areas and to promote minority enterprise. The SBA offers several programs to meet their objectives. The Economic Opportunity Loan Program, created by Title IV of the Economic Opportunity Act of 1964, provides assistance aimed specifically at the disadvantaged. Loans of up to $25,000 are available to businessmen and prospective businessmen who do not qualify for financial assistance from other sources.

The Local Development Company Program, under Section 502 of the Small Business Investment Act of 1958, provides loans to state or local development corporations for plant construction, conversion, or expansion. These loans may be made directly or in conjunction with local banks and other lending institutions.

SBA programs include Small Business Investment Companies (SBIC), which are licensed by the SBA but are privately owned companies which provide

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[33] Governor's Commission on Mortgage Practices, _op. cit._ p. 97.

venture capital and long-term financing to small firms for expansion, modernization and sound financing of their operation. SBIC transactions are private arrangements and have no direct connection with SBA. The SBIC's may be owned and operated by established industrial and financial concerns, community-oriented economic development organizations, or private or public investors.

The Minority Enterprise Program brings all of SBA's services together in a coordinated attempt to make sound business opportunities available to minority individuals.

These SBA programs, however, have not been sufficient to meet the demands for commercial investment in older urban neighborhoods. A 1972 staff report of the House Committee on Banking and Currency revealed that a massive demand exists for loans insured by the Small Business Administration, but that the 50 largest banks in the country had made only 3,306 loans in cooperation with SBA despite the fact that they held more than $2 billion in interest-free Federal demand deposits, that the bulk of these SBA loans were 90 percent guaranteed by the SBA, and that there is no maximum interest rate for these loans.[34]

Federal Administrative Regulations

Not only has discrimination on the basis of race been outlawed generally, but Title VIII of the Civil Rights Act of 1968 specifically included mortgage lending. In addition, Section 808(d) required all executive agencies to administer their activities relating to housing and urban development "in a manner affirmatively to further the purposes" of the Act.

In 1972 regulations to carry out this provision were developed. For example, the Federal Home Loan Bank Board regulations state, "Refusal to lend in a particular area solely because of the age of the homes or the income level in a neighborhood may be discriminatory in effect since minority group persons are more likely to purchase used housing and to live in low-income neighborhoods. The racial composition of the neighborhood where the loan is to be made is always an improper underwriting consideration."[35]

An official legal opinion by the Board's General Counsel in March, 1974, stated,

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[34] Cited in Ibid., pp. 95-96.

[35] 12 CFR 531.8(c)(4).

"There is substantial legal precedent for the Board to assume that redlining that is discriminatory in effect is unlawful (without any countervailing business purpose) and to shift the burden of proof to the institution to demonstrate some reasonable, genuine business purpose for redlining. In any case, such a business necessity would not be established by the institution's unsubstantiated belief that no profitable loans could be made in a given area."[36]

State and Local Action

Some state and local governments have enacted legislation or promulgated regulations intended to combat the problem of disinvestment or redlining. Several states have their own disclosure requirements. California's requirement, in effect since 1969 for state chartered savings and loan associations, has recently been expanded to require data on deposits. Reports are made monthly using the census tract as the reporting unit.

New California regulations concerning the use of geographic factors in making residential loans were issued in August, 1975. These new rules say that a savings and loan may not deny a loan or offer worse terms because of their assessment that neighborhood factors will affect present or future real estate values in the geographic area of the property.

A similar prohibition became law in Illinois in August, 1975. Public Act 79-634 forbids any financial institution doing business in the State to "deny or vary the terms of a loan on the basis that a specific parcel of real estate offered as security is located in a specific geographical area." But the law specifically states that the market value of any real estate offered as security for a loan may be used in decisions regarding a loan. Wisconsin has a similar law; in addition, it requires that financial institutions give written notice of denials to applicants and that these must be kept on file for two years.

Another 1975 law in Illinois (79-105) requires banks to sign pledges to not "reject arbitrarily mortgage loans for residential properties within any specific part of the community served by the bank because of the location of the property" and to make loans on low and moderate income residential property "within limits of its legal restrictions and prudent financial practices" in order to be eligible to receive state deposits.

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[36] Reprinted in Hearings on Home Mortgage Disclosure Act of 1975, op. cit., p. 712.

Chicago passed an ordinance in 1974 requiring disclosure of residential, consumer and commercial loan information, as well as deposit information by census tract as a prerequisite for receiving governmental deposits.

Colorado has gone further by using this type of data as a factor in the determination of where they place their deposits. In addition to having the banks bid for state deposits, the state may add up to one percentage point credit for loan activity deemed to be especially beneficial to Colorado citizens and community. Their December 1975 placement of deposits considered the interest rate bid for the state deposits, but also included the ratio of Colorado loans to deposits, the proportion of low cost and older home loans, the proportion of SBA loans, and the proportion of agricultural loans (data had also been requested on student loans and minority loans). All banks bidding for the deposits were ranked and adjustments to their bid rate were credited according to their relative performance, as illustrated in Table 2.

TABLE 2

INCREMENTAL ADJUSTMENTS TO BID RATIO

Place in Rankings: Ratio	Top 20 Percent	2nd 20 Percent	3rd 20 Percent	Bottom 20 Percent
Colorado Loans/Deposits	.3	.2	.1	0
Low Cost & Older Home Loans/Total Loans	.3	.2	.1	0
SBA Loans/Total Loans	.2	.1	.05	0
Agriculture Loans/ Total Loans	.2	.1	.05	0

A bank in the top 20 percent in all four categories would receive 1 percent added to their original bid for determination of who would receive state deposits. These guidelines were instituted by the State Treasurer, Sam Brown, who has complete discretion in where he places state deposits.

Private Action

In a number of communities governmental response to the problem of disinvestment is viewed as the last resort to be used if private action is inadequate. Local community organizations and financial institutions have developed programs to increase investment in deteriorating areas.

A number of local community groups have developed "greenlining" campaigns. These involve the threat to withdraw deposits from a financial institution if they do not cooperate with the group by making more loans in the neighborhood. The campaign need not be as extreme as threatening withdrawal. For instance one example of a successful greenlining campaign involved an agreement between the Organization of the North East (ONE) and four Chicago banks. ONE, a coalition of 40 block clubs and local community groups, agreed to encourage the area's residents, businesses, and organizations to place deposits with the four banks. In return, the banks agreed to increase the level of lending in relation to deposits from the community, to provide reasons for all loan application rejections, and to provide counseling to loan applicants to improve their credit worthiness; they also agreed to maintain records of loan applications, and to disclose local loan/deposit ratios. The agreement is expected to provide $11 million in new credit over a two-year period.[37]

Often the knowledge that a financial institution's activity is being monitored is sufficient to result in change. The new Mortgage Disclosure Act will no doubt stimulate local community organization attention to the problem of disinvestment.

Increased attention to the problem of disinvestment (brought about by Congressional and state legislative action as well as by various regulatory agencies), combined with a measure of social responsibility and a fear of further governmental action, has led to the formation of consortia of financial institutions to provide loans to declining areas. The use of consortia usually involves the sharing of risk. For example, SAMCO (Savings Associations Mortgage Company Inc.), founded by 25 savings and loan associations in Northern California, forms loan pools so that no lender owns a whole loan, but rather owns a percentage interest in a block of loans. If a loss due to foreclosure occurs, it is passed to the participating associations in proportion to their participation in the pool.

A consortia of financial institutions recently has been formed in Omaha. The Public Interest Lenders Agency (PILA) was created in January 1976 after months of planning. PILA plans to establish a loan

[37] Hearings on Home Mortgage Disclosure Act of 1975, pp. 946-7.

processing center in a target area through which all loan applications would be handled. It would charge current interest rates, but would provide extended terms in order to reduce the homeowner's monthly payments. The Greater Omaha Community Development and Housing Corporation--a non-profit organization founded by the business community in cooperation with local government--will act as guarantor of the loans.

The PILA program will focus its efforts in specific areas consisting of several contiguous blocks rather than dispersing its funds throughout the city. Residents not eligible for rehabilitation loans will be provided with Federal funds through the City's Housing and Community Development grant program; in addition the City will use these grant funds for public improvements in the target areas. Thus PILA loans will be made in areas that will be completely rehabilitated, thereby avoiding the problem of isolated improved units suffering from the presence of adjacent deteriorating units.

Another example of a program involving the cooperation of private and public agencies is Neighborhood Housing Services (NHS). This program originated in Pittsburgh and since has been aided by the Department of Housing and Urban Development and the Federal Home Loan Bank Board who provide initial planning grants.

The NHS program is an effort to bring private capital into a declining neighborhood and combine it with local governmental action and neighborhood support in order to preserve the area. Important features of the NHS program include: (1) a neighborhood with a basically sound housing stock beginning to show deterioration and with a high degree of home ownership; (2) residents who want to preserve this neighborhood and are willing to participate in the program; (3) local government willing to reinvest in the neighborhood by improving public services to the area and conducting an appropriate code enforcement program; (4) financial institutions willing to reinvest in the area by making loans which meet normal underwriting criteria; (5) a high risk revolving fund for those not able to meet credit standards; (6) a private, non-profit organization which includes staff to carry out the tasks of financial counseling, assistance with rehabilitation bids, monitoring contractors, administration of the revolving fund, and liaison with financial institutions and local government. The NHS program is underway in 11 cities and is being organized in another 17 cities.

F. Conclusion

This review of the literature has indicated that disinvestment is a complex process which occurs in both urban and rural areas. But the extent of the problem will vary. As a result the attempts to prevent, halt, or reverse the process made by private organizations and by the Federal, state and local governments have also varied. The extent of the problem in Omaha, Lincoln and several rural communities in Nebraska and the solution to combat it are discussed in the remainder of this report.

Chapter II

DEMAND FOR AND AVAILABILITY OF HOUSING AND BUSINESS INVESTMENT FUNDS IN DECLINING URBAN NEIGHBORHOODS

To determine the demand for and availability of housing and business investment funds in the declining neighborhoods of Omaha and Lincoln, telephone interviews were conducted with homeowners, renters, landlords and businessmen in these areas. An analysis of the data obtained from the four groups is presented in this Chapter. Throughout the Chapter actual survey numbers and/or percentages are provided only for emphasis on major points. Many quantitative survey results not presented in the narration are important for a full understanding of the issue; the reader, therefore, is urged to read the tables presented throughout the Chapter.

A brief profile for each of the respondent groups is presented in Part A. Past demand for housing and business investment funds as well as the availability of these funds within the Omaha and Lincoln study areas is presented in Part B. Potential demand for housing and business investment funds is discussed in Part C. Part D deals with the availability of home, property and business insurance within the declining areas of Omaha and Lincoln.[38] The survey methodologies are described in Appendix A, METHODOLOGY, and copies of the questionnaires are presented in Appendix B, QUESTIONNAIRES.

A. Respondent Characteristics

A total of 236 homeowners in the declining areas of Omaha and 36 in the Lincoln study areas were randomly selected and interviewed. Approximately two-thirds of the Omaha respondents and three-fourths of those in Lincoln were females. A slight majority of these were married housewives (59 percent in Omaha and 71 percent in Lincoln). The median age of the respondents was 57 years in Omaha and 52 years in Lincoln. Approximately

[38] Questions concerning property insurance were also incorporated into the interviews as insurance problems are often associated with declining urban neighborhoods.

half of the homeowners interviewed in Omaha were living near or under the national poverty level, the median annual household income of those interviewed being $5,160. Their Lincoln counterparts were only slightly better off with a median annual household income of $6,345.

Interviews were conducted with 188 renters in Omaha and 16 in Lincoln. Renters constituted 44 percent and 31 percent of the total householders interviewed (homeowners and renters) in Omaha and Lincoln, respectively. The percentage of respondents who were either single, divorced or widowed was larger for the renters than for the homeowners. Only 36 percent of the Omaha renters and 44 percent of the Lincoln renters were married as compared to 59 percent of the Omaha homeowners and 69 percent of the Lincoln homeowners. Renters interviewed were, on the average, younger than homeowners interviewed, with a median age of 47 in Omaha and 35 in Lincoln. Their economic position was also weaker, with Omaha respondents having a median income of $4,175 per year and Lincoln respondents having a $5,360 median income.

Interviews were also conducted with the owners of rental properties in the declining areas of Omaha and Lincoln. In Omaha, 50 "landlords" owning rental property east of 42nd Street were interviewed. In Lincoln, 22 "landlords" owning rental property in the community development areas of the City were interviewed. Approximately half of the respondents in both Omaha and Lincoln owned less than five rental units in the declining areas of their respective cities. Fourteen percent of the Omaha landlords and 23 percent of the Lincoln landlords owned between five and ten units. Persons owning over ten units of rental property accounted for 30 percent of the Omaha respondents and 28 percent of the Lincoln respondents.

Finally, to determine the demand for and the availability of business investment funds, interviews were conducted with representatives of 227 business firms in Omaha and Lincoln (174 and 53, respectively). About half the respondents in both Omaha and Lincoln owned their facilities. The average number of employees of the firms contacted was 6.7 in Omaha and 3.4 in Lincoln.

B. Demand for and Availability of Investment Funds

All four respondent groups were asked if, in the past two years, they had applied for a loan either to purchase or improve property in the

TABLE 3

DEMAND FOR AND AVAILABILITY OF HOUSING AND
BUSINESS INVESTMENT FUNDS IN DECLINING NEIGHBORHOODS OF OMAHA AND LINCOLN

Item[a/]	Omaha		Lincoln	
	Number	Percent of Total	Number	Percent of Total
HOMEOWNERS	n=236		n=36	
Applied for loan to buy or improve home	22	9.3	3	8.3
Application rejected	6	2.5	1	2.8
Unacceptable terms offered	-	-	-	-
RENTERS	n=188		n=16	
Applied for loan to buy home and rejected	4	2.1	-	-
Applied for a loan to buy a home and offered unacceptable terms	1	0.5	-	-
LANDLORDS	n=50		n=22	
Applied for loan to buy or improve property and rejected	6	12.0	3	13.6
Applied for loan to buy or improve property and offered unacceptable terms	3	6.0	-	-
BUSINESSMEN	n=174		n=53	
Applied for loan to purchase, expand, or improve property	26	14.9	6	11.3
Application rejected	6	3.4	-	-
Unacceptable terms offered	1	0.6	-	-

[a/]All loan application questions refer to applications for loans on property in the declining neighborhoods "in the last two years."

n = number of respondents.

study areas. Respondents indicating that they had applied for loans were questioned further to determine the degree of success they had in obtaining the loans. A summary of the responses is given in Table 3.

Homeowners

When homeowners were asked if in the past two years they had applied for a loan either to improve their property or to buy another home in their neighborhood, nine percent in Omaha (22 of 236) and eight percent in Lincoln (3 of 36) indicated they had. Sixteen of the 22 Omaha applications and two of the three Lincoln applications were for home improvement loans as opposed to home purchase loans.[39]

More than 25 percent of the Omaha homeowners (6 of 22) and one-third of those in Lincoln (1 of 3) said their loan applications had been rejected.[40] None of those interviewed had been offered unacceptable terms in their attempts to obtain financing. Most cited personal problems, age, inadequate savings or poor credit as the reasons given by the financial institutions for their loan rejections. One Omaha homeowner did state, however, that neighborhood deterioration was the reason that a financial institution turned down his loan application.

Renters

Seven of the 188 renters said they had applied for a loan to purchase a home while none of the 16 Lincoln respondents made such an indication. Four of the seven Omaha renters claimed that their application had been turned down while one stated he was offered unattractive terms. One renter whose loan application was rejected indicated the "high risk neighborhood" as the reason. Poor credit accounted for the other three loan rejections.

Since five of the seven Omaha respondents had not been successful in their attempts to obtain a home mortgage, it would appear that the remaining two had been successful. This, however, raises the question as to why these individuals are still "renters." Possible explanations are that the

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[39] In Omaha, four of the 22 loan applications (includes one person who also applied for an improvement loan) were to purchase a home while three others did not give the purpose of their loan request.

[40] Four of the six Omahans who were turned down had attempted to purchase a home, while the one Lincoln respondent who was turned down had applied for an improvement loan.

individuals did in fact purchase a home and then rent it out and remain renters themselves or that the individuals decided, after being cleared for a loan, that they did not want it. No inferences, however, can be drawn pertaining to the total number of renters who successfully applied for home mortgages "within the past two years" as these individuals, for the most part, would now be homeowners and would have been interviewed as such.

Landlords

Eight of the 50 Omaha landlords (16 percent) indicated they had been unable to secure financing through financial institutions to purchase property in the area east of 42nd Street. Six of the eight said they had been turned down in their loan applications while three had been offered loan terms which they considered unacceptable.[41] Reasons that the respondents were turned down included the location of the property (three respondents) and either the age or condition of the property (three respondents). The unacceptable terms cited were excessive down payment requirements, interest rates and/or collateral requirements.

Financing for property improvements appeared easier to obtain for the Omaha landlords than financing for property purchases. Only three of the 50 interviewed related difficulties in this area, two respondents having been turned down and one respondent having been offered unacceptable terms. The location and the age of the property were cited as reasons by those turned down, while the landlord who was offered unacceptable terms referred to excessive interest rates.

In Lincoln, nearly 14 percent of the landlords (3 of 22) stated they had not been able to secure financing to purchase property in the Lincoln study area. All respondents having difficulties indicated they had been turned down in their loan application rather than offered unacceptable terms. Two of the three who were turned down cited property location as the major reason for being turned down. Other reasons mentioned included the age and condition of the housing unit, appraisal problems and low property valuation.

In terms of home improvement loans, one Lincoln landlord acknowledged that his application for such funds had been turned down because of the

[41]Includes one respondent who had been both turned down and offered unacceptable terms.

TABLE 4

METHODS OF FINANCING PURCHASE OF HOUSE BY HOMEOWNERS IN THE DECLINING NEIGHBORHOODS OF OMAHA AND LINCOLN

	Omaha		Lincoln	
How did you finance your house?	Number	Percent	Number	Percent
Paid cash	35	14.8	5	13.9
Land contract	33	14.0	1	2.8
Bank	29	12.3	8	22.3
Savings and loan association	27	11.5	9	25.0
Real estate company	22	9.3	1	2.8
FHA loan	20	8.5	2	5.5
Acquired from relative	18	7.6	1	2.8
VA loan	4	1.7	2	5.5
Others	6	2.5	2	5.5
Don't know	40	17.0	5	13.9
No reply	2	0.8	-	-
	236	100.0	36	100.0

location of the property. None had been offered unattractive terms on an improvement loan.

Businessmen

Both owners and renters of businesses in the Omaha and Lincoln study areas were asked whether they had applied for a business loan from any financial institution in the past two years. To eliminate short term loans for working capital or inventory purposes, the owners were asked whether they had applied for a loan for the purposes of expansion, improvement or relocation of their business, while renters were asked whether they had applied for a loan to purchase their facility. Of the total interviewed, 15 percent (26 of 174) in Omaha and 11 percent (6 of 53) in Lincoln had applied for a loan.

Most loan applications were by owners who wanted to expand or improve their facility.[42] Nearly three-fourths (19 of 26) of the Omaha businessmen and all (6) of the Lincoln businessmen were successful in their loan applications. Of the seven who were not successful, six were turned down and one was offered unacceptable terms.

None of the businessmen who were turned down cited the location of their business as a major reason for the failure of their loan application. However, two did note property location as a factor when specifically asked "Do you think the location of your business had anything to do with the troubles you have had in arranging financing for your business?"

Methods of Home and Business Finance

An additional indication of the availability of housing and business investment funds may lie in the methods used by owners of homes and businesses to finance their purchases. These methods and the extent to which each is used in Omaha and Lincoln are given in Tables 4 and 5.

Home financing techniques used by homeowners in Omaha and Lincoln ranged from mortgages obtained through traditional savings and loan associations to direct cash transactions. The pattern of home financing in Omaha was significantly different than in Lincoln. As Table 4 indicates, less than 25 percent of the Omaha homeowners financed their homes through banks or savings and loan associations, while nearly half of those in Lincoln

[42] Only three renters in Omaha and one in Lincoln indicated they had applied for a loan to purchase or improve their facility.

obtained such financing. On the other hand, land contracts and real estate company financing were significantly greater in Omaha (23 percent) than in Lincoln (six percent). These data indicate that in the past, conventional home mortgage loans may have been more available in the older neighborhoods of Lincoln than in the older neighborhoods of Omaha.

Similarly, conventional business loans in the Lincoln study area appear to have been more plentiful than in the Omaha study area. As Table 5 shows, 38 percent (33 of 88) of the Omaha businessmen who owned their facility financed its purchase through a bank or savings and loan association. This contrasts with 46 percent (12 of 26) for Lincoln businessmen. Of those who did not finance their facility through a bank or savings and loan institution, 26 percent (14 of 54) in Omaha and seven percent (1 of 14) in Lincoln had attempted to do so.

C. Potential Demand for Investment Funds

To determine the potential demand for housing and business investment funds, each of the four groups was asked whether they would like to apply for a loan to improve their property or to buy additional property within their respective study areas in the next two years. Survey results are contained in Table 6.

Homeowners

Nearly 23 percent of the Omaha homeowners and 14 percent of those in Lincoln indicated they would like to apply for a loan either to buy another home or to improve their present home. The majority of the potential loan applications would be for property improvements with the home improvement requirements averaging approximately $2,700 in Omaha and $2,300 in Lincoln.

About eight percent (20 of 236) of the Omaha respondents and three percent (1 of 36) in Lincoln stated a desire to apply for a loan to purchase a home. Among Omaha respondents, the average down payment was $5,500 with a monthly payment averaging slightly more than $200. The Lincoln homeowner who indicated he would like to apply for a home-purchase loan estimated he could afford a down payment of $3,000 and monthly payments of $300.

TABLE 5

METHODS OF FINANCING PURCHASE OF BUSINESS BY BUSINESSMEN IN DECLINING NEIGHBORHOODS OF OMAHA AND LINCOLN

	Omaha		Lincoln	
Method of Financing	Number	Percent	Number	Percent
Banks	27	31	11	42
Private Sources	28	32	8	31
Savings and loan association	6	7	1	4
Small Business Administration	2	2	2	8
Other	24	27	2	8
Don't know	1	1	2	6
Total	88	100	26	100

TABLE 6

POTENTIAL DEMAND FOR HOUSING AND BUSINESS INVESTMENT FUNDS IN DECLINING NEIGHBORHOODS OF OMAHA AND LINCOLN

	Omaha		Lincoln	
	Number	Percent of Total	Number	Percent of Total
HOMEOWNERS	n=236		n=36	
Want to apply for loan:				
to buy home	19	8.1	1	2.8
to improve home	35	14.8	4	11.1
both	1	0.4	-	-
RENTERS	n=188		n=16	
Want to apply for loan:				
to buy home	36	19.1	2	12.5
LANDLORDS	n=50		n=22	
Want to apply for loan:				
to buy property	7	14.0	4	18.2
to improve property	6	12.0	1	4.5
both	-	-	1	4.5
BUSINESSMEN	n=174		n=53	
Want to apply for loan:				
to expand or improve	19	10.9	5	9.4
to relocate	5	2.8	2	3.8
to buy new business	3	1.7	2	3.8
other	2	1.1	-	-

n = number of respondents.

Renters

Nearly 20 percent of the Omaha renters (36 of 188) and 12 percent of the Lincoln renters (2 of 16) said they would like to apply for a loan to purchase a home within their respective study areas in the next two years. In contrast to the Omaha homeowners, the average down payment renters in Omaha could afford was only \$800 and the average monthly payment they could afford was only \$125. The two Lincoln respondents indicated an ability to pay approximately \$150 per month.[43]

Landlords

Landlords exhibited considerable demand for home purchase and, to a lesser degree, home improvement loans. In Omaha, 12 percent (6 of 50) of the landlord respondents indicated they would like to apply for improvement loans while 14 percent (7 of 50) stated they would like to apply for loans to buy additional properties. In Lincoln, just over nine percent (2 of 22) acknowledged a desire to apply for a home improvement loan. The potential demand for mortgage loans by landlords in Lincoln was somewhat higher than for their counterparts in Omaha, with nearly 23 percent of the Lincoln respondents indicating a desire to apply for such loans compared to 14 percent of the Omaha respondents. The average value of home mortgage loans was \$51,000 in Omaha and \$45,000 in Lincoln, while the average value of home improvement loans was \$3,000 in Omaha and \$16,000 in Lincoln. (The home improvement total for Lincoln is based on two observations.)

Businessmen

One of every six businessmen interviewed in both Omaha and Lincoln indicated he would like to apply for a loan in the next two years to expand or improve his present facility, to relocate or to buy another facility. The major purpose of the loans would be for business expansion or improvement. The magnitude of the potential loan demand ranged from \$9,000 to \$1 million, with a median value of \$55,000 in Omaha and \$35,000 in Lincoln.

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[43] Concerning down payment, one Lincoln respondent did not know what he could afford while the other estimated a down payment of \$3,000.

Estimated Potential Demand, 1975-1977

Based on the survey results, an estimated 1,500 homeowners and 2,700 renters residing in the declining neighborhoods of Omaha may apply for a home loan in their area in the next two years. While homeowners could afford a home valued at approximately $21,000, the renters could afford only a $13,000 home. Generalizing the sample results to the populations residing in Omaha's declining neighborhoods there is an estimated $82 million of potential demand in the next two years for home mortgage loans in those neighborhoods. About $32 million will be accounted for by homeowners, and $34 million by renters, and about $16 million will be demanded by landlords. See Table 7 for more detail and for a statement of methodology.

Home improvement loans will also be required. In the next two years an estimated $7 million may be required by homeowners and an estimated $1 million by landlords.

In Lincoln, approximately 70 homeowners and 250 renters who reside in the declining neighborhoods may apply for loans in the next two years to purchase a home. Approximately $8 million to $10 million may be generated by this demand. Another 60 to 70 units and $3 million in demand may also be generated by Lincoln landlords. Another $1 million is likely to be demanded for home improvement loans.

A summary of the potential demand estimates for Omaha and Lincoln is provided in Table 7. Included are discussions of the methodology and limitations of the estimaters.

D. Availability of Home and Business Insurance

To ascertain whether residents and businessmen within the study areas had difficulties in obtaining insurance, the respondents were asked if they had applied for property insurance in the past two years. Although this information was not required initially by the study objectives, a review of the literature indicated the age and condition of a neighborhood often affects the availability of property insurance. For this reason the CAUR staff considered it necessary to include a question concerning insurance. The results obtained from this question are given in Table 8.

TABLE 7

ESTIMATED POTENTIAL DEMAND FOR LOANS IN DECLINING NEIGHBORHOODS OF OMAHA AND LINCOLN, 1975-1977

	Omaha			Lincoln		
	Potential Applicants a/	Average Amount Required b/	Estimated Potential Demand	Potential Applicants a/	Average Amount Required b/	Estimated Potential Demand
Homeowners						
Home Mortgage Loans	1,488	$21,273	$31,654,224	66	$30,000	$1,980,000
Home Improvement Loans	2,689	2,660	7,152,740	263	2,275	598,325
Renters						
Home Mortgage Loans	2,727	12,600	34,360,200	251	15,000	7,765,000
Landlords						
Home Mortgage Loans	317	51,000	16,167,000	65	45,000	2,925,000
Home Improvement Loans	272	3,000	816,000	21	16,000	336,000

a/ The number of potential applicants was derived by multiplying the percentages of homeowners, renters and landlords who desired to apply for either a home purchase or improvement loan by the estimated total number of each group. Estimates were obtained from (1) National Planning Association: Population Estimation of Omaha SMSA, 1974 and (2) R. L. Polk & Co.: Lincoln Nebraska Small Area Profile of Changes in Rank Order Report by Census Tract, 1973-74.

b/ Average amounts required for home mortgage loans were obtained by multiplying 100 by the mean amount of monthly payment respondents could afford to pay. Down payments are not included in the estimates. The formula was devised on the assumption that the amount of monthly payment for a newly purchased home amounts, on the average, to one percent of the amount of mortgage the homeowner would be able to obtain. The average amounts of home improvement loans were obtained from sample estimation. The average amount required for home mortgage loans was derived from the following number of observations: Omaha homeowners (11) renters (31) and landlords (4), and Lincoln homeowners (1) renters (2) and landlords (5). For home improvement loans, the number of observations were: Omaha homeowners (27) and landlords (3), and Lincoln homeowners (3) and landlords (2).

TABLE 8

AVAILABILITY OF PROPERTY AND BUSINESS INSURANCE IN DECLINING NEIGHBORHOODS OF OMAHA AND LINCOLN

	Omaha		Lincoln	
	Number	Percent of Total	Number	Percent of Total
HOMEOWNERS	n=236		n=36	
Applied for home or property insurance	43	18.2	6	16.7
Turned down for insurance	3	1.3	1	2.8
RENTERS	n=188		n=16	
Applied for property insurance	19	10.1	2	12.5
Turned down for insurance	2	1.1	–	–
BUSINESSMEN	n=174		n=53	
Applied for business insurance and turned down	5	2.9	–	–
Applied for business insurance and offered excessive premiums	6	3.4	–	–

n = number of respondents.

Homeowners

About 18 percent (43 of 236) of the Omaha homeowners and 17 percent (6 of 36) of the Lincoln homeowners said they had applied for insurance within the last two years. Rejection rates were low, with three of 43 in Omaha and one of six in Lincoln being rejected. Of these, only one, an Omahan, cited neighborhood deterioration as the reason for rejection.

Renters

A smaller percentage of renters applied for property insurance. Ten percent (19 of 188) of the Omaha renters and 12 percent (2 of 16) of the Lincoln renters applied for insurance. Only two of the 19 in Omaha and none in Lincoln were turned down. One who was turned down said his location in a "high risk neighborhood" was the reason his insurance application had been rejected.

Businessmen

None of the Lincoln businessmen reported any difficulty in obtaining insurance. But for Omaha businessmen, insurance appeared to represent more of a problem. Businessmen were asked "Have you ever been turned down or offered excessive premiums by insurance companies?" One of every 18 businessmen surveyed in Omaha had either been turned down or offered unacceptable insurance terms. Of the 11 businessmen who had trouble, six claimed they were offered unacceptable terms and five reported they were turned down.

A follow-up question was asked of the Omaha businessmen who had trouble getting insurance. Each was asked "Do you think the location of your business had anything to do with your troubles in getting insurance?" Six of the 11 indicated that they did.

Chapter III

LENDING PATTERNS AND POLICIES IN DECLINING URBAN NEIGHBORHOODS

The 1975 Hearings on the Home Mortgage Disclosure Act presented substantial evidence that financial institutions play a crucial role in the process of neighborhood decline.[44] Because it is evident that the institutions are an important source of funding for investments in declining neighborhoods, a major objective of this study was to identify mortgage lending patterns and policies related to the declining urban neighborhoods in Omaha and Lincoln.

Two sources of mortgage data were sought to identify lending patterns: mortgages reported in the Omaha Daily Record and the Lincoln Daily Reporter and more detailed loan data from Omaha and Lincoln financial institutions. The analysis of this data presented in Part A. Part B presents an analysis of personal interviews with financial institution representatives focused on their policies and practices related to loans in declining Omaha and Lincoln neighborhoods. In addition, Omaha and Lincoln realtors were interviewed, as the CAUR staff felt their views on factors affecting mortgage-lending patterns would add significantly to the reliability and comprehensiveness of survey results. Realtor survey results are discussed in Part C. The role of government agencies in disinvestment is discussed in Part D.

A. Mortgage Lending Patterns by Geographic Area

The dollar value, the type of loan and the name of the lender for every mortgage recorded for properties in the study areas of Omaha and Lincoln from January 1, 1973, through June 30, 1975, were tabulated on a geographic

[44] U.S. Congress, Senate, Committee on Banking, Housing and Urban Affairs, Home Mortgage Disclosure Act of 1975, 94th Congress, 1st Session, 1975. See, in particular, studies in urban disinvestment and redlining in Chicago, New York, Philadelphia, the District of Columbia and St. Louis.

basis. The data were obtained from the Daily Record in Omaha and the Daily Reporter in Lincoln. Because these publications do not indicate the type of mortgage given (residential vs. commercial), it was necessary to determine whether each mortgage appeared to be for residential or commercial purposes. To do so, the following rules were applied: (1) where the recorded mortgage was with one person (or one person with wife) and a lending agency, the mortgage was classified as residential; (2) where the recorded mortgage was with a company, it was considered a commercial mortgage; and (3) where the mortgage was with more than one individual other than wife (e.g., John Smith, et al) and a lending agency, the type was classified as unknown.

The study areas consisted of the eight Omaha target areas delineated as eligible for Community Devleopment funds and the four Lincoln census tracts (1, 4, 7 and 31) which accounted for most of Lincoln's first year allocation of Community Development Funds. See Appendix A, METHODOLOGY, for more detail on the study areas in the two cities.

Mortgage Lending Patterns in Omaha

A total of $883 million in residential and commercial mortgages was recorded in Douglas County during the January 1, 1973-June 30, 1975 period. And, although the eight Housing and Community Development (HCD) areas contain about 43 percent of all housing units in Douglas County, less than 12 percent of the total mortgages during the two and one-half year period were issued for properties in these areas.[45] The dollar value of all mortgages and the number of housing units in each HCD area and in Douglas County are presented in Table 9. For each HCD area, the percentage of housing units exceeded the percentage of mortgage funds. This was particularly evident in the North Omaha Community Development (N.O.C.D.) area which contains over six percent of the county's total housing units but received less than one percent of the total mortgages.

Considering only residential mortgage activity within the HCD target areas, the disparity between mortgage activity and numbers of housing units is more pronounced in some sections than in others. As Table 10 indicates, for example, the North Loop area contains only ten percent of the housing within the total HCD area, yet it received more than 25 percent of the

[45]The housing unit count is from the 1970 Census and overstates the percentage in the HCD areas by not accounting for the 1970-1975 housing growth in West Omaha and the outlying territories in the County.

TABLE 9

TOTAL DOLLAR VALUE OF MORTGAGES AND NUMBER OF HOUSING UNITS FOR DOUGLAS COUNTY AND THE OMAHA HOUSING AND COMMUNITY DEVELOPMENT TARGET AREAS

Area	Mortgages (January, 1973-June, 1975)[a] Amount ($1,000)	Percent	Housing Units[b] (1970 Census) Number	Percent
Douglas County	$882,933	100.0	129,743	100.0
(1) North Loop	12,552	1.4	5,654	4.4
(2) North Omaha Community Development (N.O.C.D.)	4,314	0.5	8,579	6.6
(3) Northwest Franklin	4,249	0.5	4,257	3.3
(4) Central Business District	15,286	1.7	4,863	3.7
(5) West Central (Cathedral)	11,489	1.3	10,694	8.2
(6) Near South	32,561	3.7	10,772	8.3
(7) South Omaha	20,666	2.3	10,885	8.4
(8) East Omaha	104	-	284	0.2
Total: Housing and Community Development Target Area	101,221	11.5	55,988	43.2
Total: Remainder of Douglas County	781,712	88.5	73,755	56.8

[a] Mortgage data were compiled from the Daily Record. The mortgages include commercial and residential purposes and, consequently, the comparison with total housing units is somewhat limited.

[b] All year-round housing units, 1970 Census.

TABLE 10

TOTAL DOLLAR VALUE OF RESIDENTIAL MORTGAGES
AND THE NUMBER OF HOUSING UNITS,
OMAHA HOUSING AND COMMUNITY DEVELOPMENT AREAS

Area	Residential Mortgages[a/] (January, 1973-June, 1975) Amount ($1,000)[c/]	Percent	Housing Units[b/] (1970 Census) Number	Percent
Total: Housing and Community Development Target Area	$43,680	100.0	55,988	100.0
(1) North Loop	11,067	25.3	5,654	10.1
(2) North Omaha Community Development (N.O.C.D.)	2,564	5.9	8,579	15.3
(3) Northwest Franklin	3,588	8.2	4,257	7.6
(4) Central Business District	2,979	6.8	4,863	8.7
(5) West Central (Cathedral)	5,773	13.2	10,694	19.1
(6) Near South	8,536	19.6	10,772	19.2
(7) South Omaha	9,131	20.9	10,885	19.5
(8) East Omaha	42	0.1	284	0.5

[a/] Residential mortgage data were compiled from the Daily Record.

[b/] All year-round housing units, 1970 Census.

[c/] Differences between the mortgage values listed in Table 9 and in Table 10 represent commercial mortgages plus those mortgages that could not be classified as commercial or residential.

mortgage funds. In contrast, the N.O.C.D. area, with more than 15 percent of the housing units, received only six percent of the mortgages issued in the HCD area. The Central Business District and Cathedral areas as well as those areas further south had residential mortgages about equal to their proportion of housing units.

Mortgage Lending Patterns in Lincoln

Variations in mortgage activity between the target areas and the other portions of the city were not as great in Lincoln as in Omaha. A total of $483 million in residential and commercial mortgages was recorded for Lancaster County from January 1, 1973 to June 30, 1975. About four percent of this total was recorded for the four census tracts designated as HCD target areas. In contrast, the target areas accounted for about nine percent of the total housing units in the County as of 1970.[46] A comparison of mortgage values and housing units for each of the four target areas and for Lancaster County is presented in Table 11. As can be noted, the percentage of housing units exceeded the percentage of mortgage funds for each of the four target areas.

The dollar value of residential mortgages and the number of housing units within the Lincoln HCD target areas are presented in Table 12. Low levels of mortgage activity are most apparent for two census tracts: tract 4 had 41 percent of the target area's housing units in 1970 and 28 percent of the area's mortgage funds during the 1973-1975 period; tract 31 had seven percent of the housing units and only one percent of the mortgage funds in the HCD target area.

Mortgage Lending Patterns of Financial Institutions

Mortgage loans in Omaha and Lincoln were also classified by major financial institution.[47] Results are presented in Tables 13 and 14. Several points are worth noting. First, those institutions dealing primarily in

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[46]As in Omaha, housing data was obtained from the 1970 Census and therefore does not account for subsequent growth.

[47]Since the total volume of mortgages for Douglas and Lancaster Counties was reported only for "major" lending institutions, the comparison of mortgages in the target area versus total mortgages for the County was limited to these institutions. Fidelity National Title Insurance Company in Lincoln and Omaha provided the list by major lender.

TABLE 11

TOTAL DOLLAR VALUE OF MORTGAGES AND NUMBER OF HOUSING UNITS FOR LANCASTER COUNTY AND THE LINCOLN HOUSING AND COMMUNITY DEVELOPMENT TARGET AREAS[a]

Area	Mortgages (January, 1973–June, 1975)[b] Amount ($1,000)	Percent	Housing Units[c] (1970 Census) Number	Percent
Lancaster County	$483,593	100.0	51,454	100.0
Census Tract 1	8,044	1.7	1,442	2.8
Census Tract 4	4,667	1.0	1,834	3.6
Census Tract 7	3,489	0.7	872	1.7
Census Tract 31	517	0.1	290	0.5
Total: Housing and Community Development Target Area	16,717	3.5	4,438	8.6
Total: Remainder of Lancaster County	466,876	96.5	47,016	91.4

[a] The four census tracts (1, 4, 7, and 31) represent most of the first year Community Development Block Grant expenditures. Of the $486,000, about $94,000 was to be spent on a city-wide basis. Census tract 4 (the Clinton Neighborhood) received about $372,000.

[b] Mortgage data were compiled from the Daily Reporter. The mortgages include commercial and residential purposes and, consequently, the comparison with total housing units is somewhat limited.

[c] All year-round housing units, 1970 Census.

TABLE 12

TOTAL DOLLAR VALUE OF RESIDENTIAL MORTGAGES
AND THE NUMBER OF HOUSING UNITS,
LINCOLN HOUSING AND COMMUNITY DEVELOPMENT AREAS[a/]

Area	Residential Mortgages[b/] (January, 1973-June, 1975)		Housing Units[c/] (1970 Census)	
	Amount ($1,000)[d/]	Percent	Number	Percent
Total: Housing and Community Development Area	$13,348	100.0	4,438	100.0
Census Tract 1	7,399	55.4	1,442	32.5
Census Tract 4	3,737	28.0	1,834	41.3
Census Tract 7	2,042	15.3	872	19.7
Census Tract 31	170	1.3	290	6.5

[a/] The four census tracts (1, 4, 7, and 31) represent most of the first year Community Development Block Grant expenditures. Of the $486,000, about $94,000 was to be spent on a city-wide basis. Census tract 4 (the Clinton Neighborhood) received about $372,000.

[b/] Residential mortgage data were compiled from the Daily Reporter.

[c/] All year-round housing units, 1970 Census.

[d/] Differences between the mortgage values listed in Table 11 and in Table 12 represent commercial mortgages plus those mortgages that could not be classified as commercial or residential.

TABLE 13

MORTGAGE LENDING BY MAJOR FINANCIAL INSTITUTIONS
IN OMAHA, JANUARY 1, 1973-JUNE 30, 1975

Name of Major Financial Institutions	Amount of Mortgage Made in Target Area[a] ($1,000)	Amount of Mortgage Made in Omaha-City Wide[b] ($1,000)	Target Area / City X 100 (Percent)
Western Securities Co.	$ 2,497	$ 13,985	17.9
Conservative Mortgage Co.	289	1,297	22.3
Banco Mortgage Co.	892	34,934	2.6
Byron Reed Co.	1,268	7,663	16.6
N. P. Dodge Co.	652	3,008	21.7
Don J. McMurray Co.	362	4,765	7.6
Overland Wolf, Inc.	970	13,694	7.1
Northland Mortgage Co.	3,031	15,562	19.5
Center Bank	1,416	13,934	10.2
Douglas County Bank	297	9,342	3.2
U. S. National Bank	4,815	35,370	13.6
First Nat'l Bank-Omaha	3,466	39,739	8.7
Omaha Nat'l Bank	8,733	54,111	16.1
North Side Bank	511	2,391	21.4
Northwestern Nat'l Bank	3,150	23,531	13.4
Midlands Financial Corp.	96	2,439	3.9
Security Nat'l Bank	439	916	47.9
Omaha State Bank	257	1,225	21.0
Realbanc Inc.	33	11,607	0.3
First Federal Savings & Loan of Lincoln	2,261	59,206	3.8
Commercial Federal Savings & Loan	11,151	68,550	16.3
Conservative Savings & Loan	285	12,643	2.3
Nebraska Savings & Loan	1,414	58,140	2.4
First Federal Savings & Loan of Omaha	2,443	21,549	11.3

TABLE 13
(continued)

MORTGAGE LENDING BY MAJOR FINANCIAL INSTITUTIONS
IN OMAHA, JANUARY 1, 1973-JUNE 30, 1975

Name of Major Financial Institutions	Amount of Mortgage Made in Target Area[a/] ($1,000)	Amount of Mortgage Made in Omaha-City Wide[b/] ($1,000)	Target Area / City X 100 (Percent)
Occidential Savings & Loan	$ 1,798	$ 28,929	6.2
Omaha Savings & Loan	327	17,173	1.9
Great Western Savings & Loan	38	348	10.9
Nebraska State Savings & Loan	111	6,391	1.7
Prudential Ins. Co.	0	13,425	0.0
Industrial Loan & Invest.	290	1,557	18.63
American Savings	1,022	2,829	36.13
	$54,314	$580,253	9.3

[a/] Compiled by CAUR from the Omaha Daily Record, January 1, 1973-June 30, 1975.

[b/] From Fidelity National Title Insurance Company Mortgage Recordings, January, 1973-August, 1975.

TABLE 14

MORTGAGE LENDING BY MAJOR FINANCIAL INSTITUTIONS IN LINCOLN, JANUARY 1, 1973-JUNE 30, 1975

Name of Major Financial Institutions	Amount of Mortgage Made in C.T.I. 4, 7 & 31[a]	Amount of Mortgage Made in Lancaster Co. & Lincoln[b]	$\frac{\text{Target Area}}{\text{City}} \times 100$ (Percent)
Bank of Panama	$ 0	$ 277	0.0
Citizens State Bank	152	2,784	5.5
City National Bank	0	3,147	0.0
Cornhusker Bank	52	1,538	3.3
Federal Land Bank	8	4,464	0.0
First National Bank	0	19,096	0.0
First State Bank	8	1,115	0.0
Hallam Bank	0	189	0.0
Havelock Bank	677	4,936	13.7
Lancaster Co. Bank	35	899	3.9
Lincoln Bank East	0	336	0.0
Martell State Bank	0	558	0.0
Nat'l Bank of Commerce	266	28,237	0.9
Union Bank	7	2,582	0.3
West Gate Bank	44	599	7.3
Farmers Home Adm.	0	3,303	0.0
Lincoln PCA	0	3,422	0.0
Commonwealth Co.	628	19,019	3.3
Conservative Invest.	44	2,948	1.5
First Federal of Lincoln	4,073	77,622	5.2
Lincoln Federal	620	18,490	3.3
Mutual Savings Co.	850	8,043	10.5
Nebraska Central	43	1,358	3.2
Provident Savings	81	5,561	1.4
State Federal Savings	2,278	101,849	2.2
State Securities	1,523	21,866	7.0
Total	$11,389	$334,238	3.4

[a]Compiled by CAUR from the Daily Reporter, January 1, 1973 to June 30, 1975.

[b]From Fidelity National Title Insurance Co.'s Mortgage Recordings, January, 1973-August, 1975.

the secondary money market tend to have low percentages of their mortgages in the target areas. Second, in Omaha, banks tend to have higher percentages of their mortgages in the target areas than do savings and loan associations. Finally, real estate companies in Omaha that deal in mortgages have slightly higher than average percentages in the target areas. Regarding Lincoln, it is apparent that most of the mortgages in the target areas are provided by seven or eight lenders.

A letter requesting more specific loan data to complement Daily Record and Daily Reporter data was mailed to 65 lending institutions. The institutions were randomly selected from a list of lenders compiled from the mortgage data obtained from the two daily publications. The list, therefore, included more than just the commercial banks and savings and loan associations. The data requested for the fiscal years 1970 and 1974 (and 1960 if available) included:

(1) Total number and dollar volume of the following types of new loans contracted by the main office and each branch location (if any) by census tract or by zip code:

(a) home imporvement loans,
(b) loans for the purchase of single family housing units, and
(c) commercial loans for new business and business expansion (if applicable).

(2) Total number and dollar volume of the following types of new loans contracted by the main office and each branch location (if any) by census tract or by zip code:

(a) FHA insured loans,
(b) VA insured loans, and
(c) loans made to non-occupant owners.

The letter emphasized that the information would be aggregated and compared by total response, and that specific information submitted by the firm would not be made public except as a part of larger totals. A copy of the letter of request is presented in Appendix B, QUESTIONNAIRES.

Of the 65 financial institutions receiving the letter of request, only 15 responded. Of these, only six were able and willing to provide the data requested. Most others who responded indicated either that they were not really in the real estate market or that they did not have adequate records to provide data by census tract or zip code. The number of respondents was not a sufficient base for analysis.

B. Financial Institution Lending Policies

Representatives of 24 financial institutions in Omaha and 15 in Lincoln were interviewed during October and November of 1975. Interviews focused on the policies and practices of the individual financial institution concerning home mortgage, home improvement, and commercial loans in the older, declining sections of the two cities.[48] The survey results are presented in Appendix A, and a copy of the questionnaire is contained in Appendix B.

Home Mortgage Loans

The financial institution representatives were asked, "If a depositor in your institution wanted to buy a $9,000 house in [a deteriorated area of the city][49] and if he were a qualified borrower, what factors would you consider in making a straight conventional loan?" Follow-up questions were asked to determine whether age, condition, or location would be factors in making such a loan or in establishing the terms of the loan. A summary of responses is presented in Table 15.

About one-half (8 of 18 in Omaha and 8 of 14 in Lincoln) of the respondents noted that the age of the property would be a factor in determining whether the loan was made.[50] Comments centered on the fact that age affects the length of life left in the house and, consequently, the length of life of the loan, and that age could usually--but certainly not always--be equated with condition.

Over 80 percent of the Omaha respondents (15 of 18) and over 90 percent of those in Lincoln (13 of 14) indicated that the condition of the property would be a factor in determining whether the loan was made. Most commented that the house should be liveable, with no major repairs needed. Other more specific comments were: the house should meet FHA-VA standards; the house should meet city minimum code standards; the house should be well-

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[48]Respondents were also asked what was needed to encourage more housing and business investment in the older, declining sections of the two cities. Responses to this question are included in Chapter V of this study.

[49]In Omaha, the area "east of 42nd Street" was referred to, and in Lincoln the term "older, declining areas of the City" was used.

[50]The question did not apply in six instances and one representative refused to reply.

TABLE 15

FACTORS CONSIDERED IN MAKING CONVENTIONAL LOANS TO QUALIFIED BORROWERS IN THE DECLINING NEIGHBORHOODS OF OMAHA AND LINCOLN[a/]

Factors	Omaha[b/] n=18 Number	Percent	Lincoln[c/] n=14 Number	Percent
Would any of the following be a factor in determining whether the loan is made?				
Age of property	8	44.4	8	57.1
Condition of property	15	83.3	13	92.9
Specific location of property	7	38.9	5	35.7
Is there a minimum loan amount?	10	55.6	5	35.7
Would any of the following be a factor in determining the terms of the loan?				
Age and condition of property	16	88.9	11	78.6
Value of property	12	66.7	5	35.7
Location of property	4	22.2	1	7.1

[a/] In Omaha, the area "east of 42nd Street" was referred to and in Lincoln the term "older, declining areas of the City" was used.

[b/] Excludes five institutions in which the questions did not apply and one in which the representative refused to answer.

[c/] Excludes one institution in which the question did not apply.

n = number of respondents.

maintained and in an area where other houses are well-maintained; and the owner must have the ability to improve the property if repairs are needed.

Slightly more than one-third of the respondents in both cities (7 of 18 in Omaha and 5 of 14 in Lincoln) noted that the specific location of the property would be a factor in determining whether the loan was made. None provided examples of specific areas in which loans would be refused. Comments, instead, were more general: the area has to reflect stability and surrounding dwellings show pride of ownership; the age, condition and use of surrounding properties are factors; certain areas where commercial and industrial uses are creeping in are considered poor areas in which to make housing loans. One respondent in Lincoln indicated that in some of the poorer areas his firm would be anxious to get the houses to qualified borrowers. Finally, several of the "no" responses were conditional; e.g., "no, but we would note the vandalism rate"; "no, but it depends on the appraisal and the appraiser's reading of adverse influences"; "no, if FHA or VA will insure, we will market the home." Several of the Lincoln lenders objected to the use of "declining" in the question, indicating that Lincoln had some poorer areas, but none that were declining.

Over half of the Omaha lenders (10 of 18) reported they had a minimum loan amount; 36 percent of the Lincoln lenders (5 of 14) indicated a minimum. Three Omaha lenders stated they prefer no loans less than $12,000. One of these emphasized that, regardless of the amount of the loan, there is a fixed cost to service the loan. The return on a $20,000 loan, for example, is considerably higher than the return on a $5,000 loan; yet it costs just as much to service the $5,000 loan as the $20,000 loan. Another who did not state a specific minimum indicated that the decision is made case by case, primarily based on the expense involved in processing and servicing the loan. The others all indicated amounts less than $12,000, one stating that $10,000 was the floor because of the Federal National Mortgage Association limitations. Other values stated were $6,500 and $1,000.

In Lincoln, one lender indicated his firm tries to convert loan requests for under $15,000 to installment loans (i.e., ten-year loans at 12 percent). Two indicated that when loans reach the $3,000 to $5,000 range the cost to file the mortgage and service the loan makes it more feasible to go with other means of financing. Another offered a similar rationale, but did not provide a minimum figure. The other stated that $10,000 was their floor.

Regarding the terms of the loan, approximately 80 percent of the lenders interviewed (16 of 18 in Omaha and 11 of 14 in Lincoln) indicated that the age and condition of the property would affect the terms. Most of the comments centered on the fact that age and condition determine the remaining economic life of the property. Consequently, older units in poor condition typically will have shorter terms and higher percentage down payments. Similarly, when asked if the value of the unit would affect the terms, those who replied it would (67 percent in Omaha and 36 percent in Lincoln) tended to emphasize that a low value implied poor condition. Others indicated the absolute amount of down payment and amount of repayment would obviously be affected by the value. Only one specifically stated that the low value affected the profitability of the loan and therefore the terms would have to be adjusted to account for the relatively higher originating and servicing costs.

Only a few of the lenders responded that the location of the property would affect the terms of the loan. In Omaha, those respondents who indicated that location affects terms also pointed out that this is because of the age and condition of property in the eastern section of the City. One mentioned that the western locations are more stable and hence he would be inclined to grant more favorable terms there. Several pointed out that the comparison really could not be made because property in the western portion of Omaha just was not comparable to that in the eastern portion. A similar line of reasoning was advanced by the Lincoln lender who stated that the terms would be different because in other areas of the city the value would be greater.

Home Improvement Loans

The lenders were next asked, "If a depositor in your institution wanted a conventional $1,500 home improvement loan for a house valued at $9,000 located in [a declining area of the city][51] and if he were a qualified borrower, what factors would you consider in making the loan?" Almost all of the respondents noted that the most important considerations had been covered by the assumption that the borrower was qualified.

[51]In Omaha, the area "east of 42nd Street" was referred to, and in Lincoln the term "older, declining areas of the City" was used. The question did not apply to nine Omaha lenders and three Lincoln lenders. In addition, one Omaha lender refused to answer the question.

They cited the borrower's ability to pay, stability on the job and residence, and willingness to repay the debt as the most important factors in the lending decision. The loan value or equity in the property was a factor also frequently mentioned. A summary of responses is presented in Table 16.

Specific follow-up questions included, "Is there any set loan-to-value ratio you apply for determining whether to grant a home improvement loan?" About one-quarter (3 of 14 in Omaha and 4 of 12 in Lincoln) indicated there was. Of these, all had guidelines related to the borrower's equity in the unit. Most were willing to lend 75 to 80 percent of the borrower's equity. Two Omaha lenders who said they had no set loan-to-value ratio did indicate there was a point at which a loan request would be ridiculous--one stating that a $2,000 loan on a $5,000 unit was nonsense, the other stating that the total loan should not exceed the value of the house.

Property location was less likely to be a factor in determining whether to make a home improvement loan than a home mortgage loan. None of the Omaha lenders thought the fact that the property was located "east of 42nd Street" would be a consideration in determining whether to make a home improvement loan. When asked, however, if the specific location of the property within the area east of 42nd Street would be a factor in making the loan, 21 percent (3 of 14) said it would. One respondent indicated that his firm would not make loans in the area to be affected by the North Freeway. Another mentioned the 24th and Lake and the 36th and Lake areas as locations his firm would be hesitant to make home improvement loans in. The third stated that his firm would be hesitant to make loans in heavily blighted areas.

Of the 12 Lincoln lenders responding to this question two said the location of the property within the "older, declining areas of Lincoln" would be a factor in determining whether or not to make a home improvement loan. Neither considered it to be a major factor, one stating that location would be considered "to some extent, but it would not be the primary concern" and the other stating that "location would not be a factor unless the loan request was for more than $5,000." Only one of the 12 respondents replied that the specific location within the older, declining area would be a factor in granting the loan. This respondent initially stated that it would not be a factor, but later noted that it might if the house was within a ring of deteriorated huts.

TABLE 16

FACTORS CONSIDERED IN MAKING HOME IMPROVEMENT LOANS IN THE DECLINING NEIGHBORHOODS OF OMAHA AND LINCOLN[a/]

Factors	Omaha[b/] n=14 Number	Omaha[b/] n=14 Percent	Lincoln[c/] n=12 Number	Lincoln[c/] n=12 Percent
Would either of the following be a factor in determining whether the loan is made?				
Fact that property is located in a declining area	-	-	2	16.7
Specific location of the property within the declining area	3	21.4	1	8.3
Is there a set loan-to-value ratio?	3	21.4	4	33.3
Would either of the following be a factor in determining the terms of the loan?				
Age and condition of the property	8	57.1	6	50.0
Location of property within city	-	-	-	-

[a/] In Omaha, the area "east of 42nd Street" was referred to and in Lincoln the term "older, declining areas of the City" was used.

[b/] Excludes nine institutions in which the questions did not apply and one in which the representative refused to answer.

[c/] Excludes three institutions to which the questions did not apply.

n = number of respondents.

The lenders were also asked whether the age and condition of the property would be factors in determining the terms of a home improvement loan. About one-half in each city said they were important considerations. Reasons given were: The condition affects the value of the property and hence the terms, it depends what the reconditioning is for, and the lender has the duty to advise people whether to spend dollars on the property or trade properties. Many also added that age and condition affect whether or not the loan is granted more than the terms of the loan.

The value of the property was also considered a factor in determining the terms of home improvement loans by five of the 14 Omaha lenders and seven of the 12 Lincoln lenders. Many of these said the property value would affect the absolute amount that could be loaned out because it affects the equity. None of the lenders indicated that the location would affect the terms, indicating that if all other prerequisites for the loan were met the specific location would not affect loan terms.

Commercial Loans

The lenders were asked, "If a depositor in your institution wanted a $50,000 loan to purchase a commercial structure in [a declining area of the city],[52] what factors would you consider in making the loan?" Eighteen lenders in Omaha and 14 in Lincoln responded.[53] A summary of their replies is contained in Table 17. Since the question left more aspects to the lending decision unanswered (e.g., the qualifications of the borrower and the type of business), the responses tended to be considerably more detailed than responses to earlier questions. One lender, for example, listed 17 factors to be considered and added as the 18th an "etc." comment. Basically the replies focused on the potential of the property to produce income and meet the payments of the loan, the alternate uses of the property, and the credit worthiness of the borrower.

When asked, "Would the fact that the property is located east of 42nd Street affect your decision to grant the loan?" Omaha lenders in general said no. Of the two who indicated this would affect their decision, one

[52] In Omaha, the area "east of 42nd Street" was referred to, and in Lincoln the term "older, declining areas of the City" was used.

[53] The question did not apply in six cases and one lender in Omaha refused to answer.

TABLE 17

FACTORS CONSIDERED IN MAKING BUSINESS LOANS

Factors	Omaha[b] n=18 Number	Percent	Lincoln[c] n=14 Number	Percent
Would the fact that the property is located in a declining area[a] affect your decision to grant the loan?	2	11.1[d]	7	50.0
Are there any declining areas in which you would be more likely to refuse the loan request?	6	33.3	4	28.6
Would the terms of the loan be different depending upon the specific location of the business?	1	5.6	-	-

[a] In Omaha, the area "east of 42nd Street" was referred to and in Lincoln, the term "older, declining areas of the City" was used.

[b] Excludes five institutions in which the questions did not apply and one in which the representative refused to answer.

[c] Excludes one institution in which the questions did not apply.

[d] Of the two who replied yes, one indicated he would be more likely to grant the loan.

n = number of respondents.

said they would be more inclined to grant the loan because it would be within their trade area and their institution wanted to encourage business in the area. He also indicated they would take a good, hard look at the earning capacity of the venture. The other lender stated that the property would have to be highly marketable.

More of the Omaha lenders were inclined to say that there are specific areas east of 42nd Street in which they would be more likely to refuse the loan request. One-third (6 of 18) indicated there are such areas, all mentioning North Omaha and two specifically mentioning 16th and Lake and 24th and Lake. Only one Omaha lender said the terms of the loan would be different depending upon the specific location of the business.

In Lincoln, one-half (7 of 14) of the respondents indicated that the location of the property in an "older, declining area" of the city would be a factor in their lending decision. But explanations varied. One indicated the property location would be a consideration if it was not in or near their trade territory. Two stated that if the property were in an older, declining area they would look at the potential of the business and the loan decision would depend to some extent on the type of business for the area. Two others said they would be hesitant if the area were declining because the value of the property might very likely decline. (One of these also stated that he did not think Lincoln had any old, declining areas.) The other two simply stated that the location would be a consideration.

Lincoln lenders were less sure than Omaha lenders of specific areas in which they would be more likely to refuse loans, but one did mention the old industrial area in Lincoln as being conducive to little more than warehousing.

The comments of Omaha and Lincoln lenders concerning whether general and specific locations would affect their lending decisions differed considerably. Much of this can be explained by the nature of the two cities. The diverse nature of the area east of 42nd Street (which includes the Central Business District, the South Omaha Business District, the North Omaha Business District, and the Florence Business District) probably accounts for the hesitancy of the Omaha lenders to mark this area as the one to which they would have to give special consideration. On the other hand, several areas were pointed out within the area east of 42nd Street which would merit special consideration in a loan request. In Lincoln, the opposite appeared true. While a fairly large percentage stated that they would give special consideration if the property were located in an older, declining area, only one cited a specific area.

Redlining

Because the issue of redlining and its consequence--disinvestment--is an important aspect of any study dealing with credit availability in older, declining urban neighborhoods, the concept was dealt with in the survey of lenders. Since redlining is often an emotional term, meaning different things to different people, the definitions used in the questionnaire were as precise as possible. Eleven methods of redlining, as published in the Committee on Banking, Housing and Urban Affairs Hearings on the Home Mortgage Disclosure Act of 1975,[54] were incorporated into the questionnaire. Each person interviewed was asked to read the method of redlining and to indicate whether any of the methods were being practiced by any financial institution in their respective city.[55] Results are presented in Table 18.

In Omaha, 53 percent (9 of 17) of the lenders responding to the question checked at least one of the methods of redlining; 18 percent (3 of 17) checked at least one conditionally, and 29 percent (5 of 17) said that none of the methods was being practiced. In Lincoln, 83 percent (10 of 12) of the lenders checked at least one of the methods; one other checked at least one method conditionally, and the final respondent indicated that none of the methods was practiced.

Minimum Loan Figure. The most common form of redlining in Omaha and Lincoln was the practice of refusing to make loans in dollar amounts below a certain minimum figure. Forty-one percent (7 of 17) of the lenders in Omaha and 67 percent (8 of 12) of the Lincoln lenders indicated that this practice was taking place.

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[54] U.S., Congress, Senate, Committee on Banking, Housing and Urban Affairs, Home Mortgage Disclosure Act of 1975, 94th Congress, 1st Session, 1975. Part 1, p. 35.

[55] Of the 39 lenders interviewed, four in Omaha and three in Lincoln indicated they did not know enough about the real estate market to comment. Three others in Omaha refused to answer. Hence, a total of 17 lenders in Omaha and 12 lenders in Lincoln responded to the question.

TABLE 18

METHODS OF REDLINING

Responses of Financial Institution Representatives

Method[a]	Omaha n=17 Number	Percent	Lincoln n=12 Number	Percent
Requiring higher down payments than usual for financing comparable properties in other areas.	6	35.3	1	8.3
Fixing higher loan interest rates than those set for all or most mortgages in other areas.	5	29.4	2	16.7
Fixing higher loan closing costs than those set for all or most mortgages in other areas.	1	5.9	-	-
Fixing loan maturities below the number of years to maturity set for all or most mortgages in other areas.	4	23.5	5	41.7
Refusing to lend on properties above a prescribed maximum years of age	4	23.5	6	50.0
Refusing to make loans in dollar amounts below certain minimum, thus excluding many lower-priced properties often found in neighborhoods where redlining is practiced.	7	41.2	8	66.7
Refusing to lend due to presumed "economic obsolescence" regardless of the condition of an older property.	4	23.5	-	-
Stalling on appraisals to discourage potential borrowers.	-	-	-	-
Setting appraisals in amounts below actual market value, thus making home purchase transactions more difficult.	1	5.9	1	8.3
Applying much more rigid structural appraisal standards than those applied for comparable properties in other areas.	2	11.8	-	-
Charging discount "points" as a way of discouraging financing.	3	17.6	4	33.3

[a] Of the 39 representatives, nine in Omaha and ten in Lincoln checked at least one method, three others in Omaha and one in Lincoln checked at least one conditionally, five in Omaha and one in Lincoln said that none of the methods are practiced, four in Omaha and three in Lincoln said they didn't know enough about the real estate market and three in Omaha refused to answer.

n = number of respondents.

Other Methods. In Omaha, other frequently marked methods of redlining included: (1) requiring higher down payments than are usually required for comparable properties in other areas (35 percent), (2) fixing higher loan interest rates than those set for most mortgages in other areas (29 percent), (3) fixing shorter loan maturities in some areas than for most mortgages in other areas (24 percent), (4) refusing to lend on properties above a prescribed maximum age (24 percent), and (5) refusing to lend on the basis of presumed "economic obsolescence" no matter what the condition of an older property may be.

The relative importance of "other methods" of redlining differed for Lincoln lenders, with the practice of refusing to lend on properties above a prescribed maximum age being checked by half (6 of 12) and fixing shorter loan maturities in some areas than for most other mortgages in other areas being checked by 42 percent (5 of 12).

C. Realtor Views on Mortgage Lending Policies

Twenty-two Omaha realtors and 12 Lincoln realtors were interviewed to gain their impressions on the influence of a property's age, price and location on the lending decision of financial institutions. Their responses are presented in this section. A statement of methodology is contained in Appendix A, and a copy of the questionnaire used for the interviews is presented in Appendix B.

The Role of Age, Price and Location

Realtors were asked if they were familiar with any cases in which a sale had been lost because a financial institution rejected a loan application or because they made the terms unattractive due to the location of the property, the price of the property, or the age/condition of the property. Results are presented in Table 19.

Twenty-one of the 22 Omaha realtors and 11 of the 12 Lincoln realtors cited instances where one or more of the above factors were reasons for a loan rejection or unacceptable terms. Location and price were most frequently cited in Omaha; age and location were most frequently noted in Lincoln.

In Omaha, for example, 15 of the 22 realtors said they knew of cases in which no sale was made because a financial institution rejected a loan

TABLE 19

FACTORS AFFECTING AVAILABILITY OF HOUSING MORTGAGE FINANCING IN DECLINING AREAS OF OMAHA AND LINCOLN

Realtors

	Omaha n=22		Lincoln n=12	
Question	Yes	Percent	Yes	Percent
Do you know of any cases where a sale was not made because a lender rejected a loan application or made the terms unattractive due to the location of the property?	15	68.2	9	75.0
Turned down applications	7	31.8	5	41.7
Offered unacceptable terms	10	45.5	7	58.3
Do you know of any cases where a sale was not made because a lender rejected a loan application or made the terms unattractive due to the age of the property?	6	27.3	11	91.7
Do you know of any cases where a sale was not made because a lender rejected a loan application or made the terms unattractive due to the price of the property?	16	72.7	2	16.7

n = number of respondents.

application or offered unattractive terms due to the location of the property. Nine of the 12 Lincoln realtors knew of similar cases.

Age was a particularly important factor in Lincoln as 11 of the 12 realtors knew of instances in which no sale was made because a lender rejected a loan application or offered unattractive terms due to the age of the property. In contrast, only six of the 22 Omaha realtors cited a knowledge of such cases.

Several realtors mentioned that lenders will often charge more discount points on houses in certain areas. One Omaha respondent indicated that as many as four or five additional discount points are sometimes charged if the neighborhood is questionable or if older homes are involved. One Lincoln realtor noted that the location of the property would also affect the amount of down payment required on a loan. The comment of another Omaha realtor seemed to state well the attitudes of the majority of realtors in Omaha and Lincoln: "The terms of a loan depend on three things--location, location and location."

Although several of the Lincoln realtors said some loan companies refuse to make loans on properties beyond a prescribed age, more seemed to think that the age of the property would have a greater impact on the terms a financial institution would offer. Several indicated that older properties often require a shorter period of amortization, some noted that interest rates would be higher and others suggested that the down payment required would be considerably higher.

Several realtors also noted that financing is difficult to obtain for properties priced under $10,000. They further pointed out that lower-priced properties normally have more discount points attached.

D. The Role of Government Agencies in Disinvestment

Although this Chapter has focused on the role of financial institutions in the disinvestment process, many other factors--and agencies--contribute to disinvestment. In the 1975 Hearings, the Comptroller of the Currency stated that mortgage lending disinvestment is one of the last events to occur in areas characterized by severe physical deterioration. He further added:

> Other factors which are typically present are the sharp decline in public services including sanitation, police and fire protection, and

> building code enforcement. Normally there is a withdrawal of fire and casualty insurance services. Likewise the policies of governmental agencies with respect to the insuring, guaranteeing, and the secondary market purchases of residential mortgages can affect the trend of deterioration in a particular neighborhood.[56]

The Comptroller's statement concerning governmental agencies agrees with comments received from Omaha and Lincoln financial representatives. Several lenders noted they would provide mortgage money as long as FHA would insure the loans. Others indicated they would provide mortgage money if the Federal National Mortgage Association (FNMA) would provide the secondary market for the mortgages. Since these two governmental agencies play a crucial role in many lending decisions, each was examined for its impact on housing investment in older, declining neighborhoods.

HUD-FHA Housing Mortgage Insurance

The Housing and Urban Development Act of 1968 added a new Section 223(e) to the National Housing Act. This Section provides mortgage insurance for the repair, rehabilitation, construction, or purchase of property located in older, declining urban areas when conditions of the area are such that the property cannot be insured under other Sections. For a location to be eligible under Section 223(e):

> ...the area must be reasonably viable and able to support adequate housing for families of lower income levels. Viability means ability to live. The location features adversely affecting the desirability and usefulness of the property must not endanger the health and safety of its occupants. They cannot be expected to terminate the useful physical life of the property over the expected life of the mortgage. Finally the property under consideration must be considered reasonably livable and marketable in light of the alternative housing available to the typical occupant of the area despite the presence of the limiting location influences.[57]

HUD-FHA determines what property is eligible for insurance under Section 223(e), and mortgagees cannot submit applications under the program.

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[56] U.S. Congress, House, Committee on Banking, Currency and Housing, Bank Failures, Regulatory Reform, and Financial Privacy, Hearings before the Subcommittee on Financial Institutions Supervision, Regulation and Insurance, 94th Congress, 1st Session, on H.R. 8024 (Washington: Government Printing Office, 1975), p. 890.

[57] U.S. Department of Housing and Urban Development, Housing Production and Mortgage Credit-FHA, HUD Handbook 4260.1, December 11, 1972, p. 4-3.

No special Lincoln areas are eligible for insurance under Section 223(e), although a regional HUD-FHA representative did indicate that the determination would be made on a case-by-case basis.[58] In Omaha, however, there is an area in North Omaha which has been "yellow-lined" as a caution area and which, accordingly, contains property which is most likely to be eligible for Section 223(e) insurance. More revealing, though, is that within the North Omaha area there is another area in which HUD-FHA will not provide Section 223(e) insurance because the area has been judged as not viable and unable to support adequate housing. This area is bounded on the north by Locust Street, on the south by Burt Street, on the east by Florence Boulevard, and on the west by 27th Street. This area encompasses all of census tract 12, about 90 percent of census tracts 9, 13.01 and 14 and about one-half of census tracts 10, 11, and 15.

Federal National Mortgage Association (FNMA)

The FNMA (also referred to as Fannie May) does not lend money directly to the builder or seller of property, but instead provides a secondary market for mortgages. The FNMA purchases, services, and sells mortgages insured or guaranteed by the FHA and the VA. It also guarantees privately issued securities backed by mortgage or loan pools which are insured or guaranteed by the FHA or VA.[59] Although the FNMA guidelines state no specific minimum loan amount, they do state:

> With respect to each mortgage, there should not be any circumstances of, or conditions affecting, the mortgaged premises that would adversely affect the value or marketability of the mortgage or that would cause private investors to regard the mortgage as unacceptable for prudent investment.[60]

According to Omaha lenders this policy is carried out in FNMA's conventional program and, accordingly, property in delcining areas is not considered appropriate--unless the mortgage is insured or guaranteed by FHA or VA.

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[58] Conversation with Mr. Ken Moliter, Housing Production and Mortgage Credit, HUD-FHA, January 6, 1976.

[59] 24 Code of Federal Regulations 0.735-101, Chapter III, Governmental Mortgage Association, Department of Housing and Urban Development.

[60] *Ibid.*, p. 629.

Chapter IV

NON-METROPOLITAN COMMUNITIES

Presented in this Chapter are the results of CAUR's survey work in the communities of Beatrice, Broken Bow, Columbus, Hartington and Lexington on the perceptions of local residents, businessmen, government officials and representatives of financial institutions regarding the availability of housing and business investment funds in their communities and in smaller neighboring communities.

Both the communities and persons to be interviewed were selected in consultation with representatives of the Nebraska State Office of Economic Development. As pointed out in Appendix A, METHODOLOGY, the number of persons interviewed (38) was very small in relation to the total population of the State's non-metropolitan communities. Further, the persons interviewed were not randomly selected. The survey results, therefore, cannot be taken as statistically valid representations of perceptions on housing and business investment funds throughout the State's non-metropolitan communities. Nevertheless the respondents were knowledgeable of local and regional housing and business conditions. Hence, the CAUR staff believes the survey results indicate certain tendencies and do permit at least some tentative inferences to be drawn about non-metropolitan communities. The questionnaires used for the interviews are included in Appendix B, QUESTIONNAIRES.

Part A contains the views of residents, businessmen and government officials on housing and business investment. Because a slightly different questionnaire was given to financial institution representatives, their views are presented in Part B. Suggestions offered by the respondents to encourage greater housing and business investment in their respective communities are discussed in Part C.

A. Residents, Businessmen and Government Officials

Knowledge of Loan Practices

The residents, businessmen and government officials interviewed in the five cities were asked if they knew of persons who had tried to get a loan "in the past two years" to purchase or improve property and who were turned down. Those who knew of such cases were also asked if they knew why the individuals were rejected.

Although most of the respondents knew of instances where a loan request had been rejected, most reasons for rejection were legitimate financial considerations. Examples include applicants with poor credit records, insufficient income to carry payments or make down payments, or existing liabilities out of proportion to incomes. In other instances loans were refused because the selling price was too high in relation to the property's assessed value and because of property-related defects such as no connection to a sanitary sewer or poor drainage. One respondent mentioned a case in which a loan application was rejected because the applicant was new to the area.

While none of the respondents could provide definite examples of lenders turning down loan requests without good cause, one did indicate that a local financial institution in at least one instance required an excessive down payment as a device to avoid a loan they considered undesirable. Another said the down payments required in rural communities were excessive compared to the urban areas. Several mentioned that interest rates were excessive, but blamed this on the state of the economy rather than on specific lenders.

Loan Practices with Respect to Smaller Neighboring Communities

The residents, businessmen and government officials were asked if they knew of financial institutions which refused to make loans in rural communities or which made the terms of the loans so unattractive as to discourage housing and business investment in rural communities.

Several of the respondents in Beatrice and Columbus said lenders tend to apply more rigorous standards to loan applications from persons in smaller neighboring communities than to loan applications from within the cities themselves. One person in Columbus, for example, noted that communities throughout Nebraska with populations under 1,000 and without a savings and loan association close by have the most difficulty. He further stated that "although the S & L's won't necessarily refuse the application, they will discourage it and ask that the applicant try the Farmers Home Administration." Another respondent in Columbus indicated it depends on the institution but most are hesitant to go into the rural areas and smaller communities. In Beatrice, a public official said the down payment might be higher for persons in smaller surrounding communities and "it is damn tough" to get loans in the small communities.

To a lesser extent, respondents in Lexington and Broken Bow noted problems in financing for smaller neighboring communities. None of the Hartington respondents indicated they were familiar with lenders who refused or discouraged loans in smaller neighboring communities or rural areas.

It should be noted that local lenders had their defendents in two communities. A respondent in Beatrice contended the Farmers Home Administration is encroaching on the loan business in small communities. Another said, "Twenty-five to 30 years ago savings and loans would not invest in the smaller rural communities because of no sanitary sewerage, bad roads, etc. These conditions have been improved so now savings and loans are more willing to loan in smaller communities." And in Columbus a respondent noted that loan companies were justified in their hesitation to lend money in the rural communities because of the poor market for homes.

The difficulty of estimating the market value of housing in the smaller communities, the difficulty and extra expense of servicing loans in them and the lack of adequate water, sanitary sewerage and other public services and facilities were also cited as reasons why financial institutions are not willing to make mortgage and home improvement loans there.

Availability of Housing and Business Investment Funds

Respondents agreed almost unanimously that housing and business investment funds were in adequate supply within the five cities themselves.[61] Two of the respondents, however, attributed the adequacy of financial resources to Federal programs such as those of the Farmers Home Administration and the Federal Land Bank. One other person qualified his reply by saying that investment in local business could be improved; most banks in out-state

[61] In a related part of the study, State officials told CAUR staff that serious shortages of investment funds do exist in some of the State's nonmetropolitan communities.

Nebraska tend to shy away from many types of business investments and concentrate on livestock and other agricultural-related loans. Another, in Hartington, said financial resources are never what they could be and some local money was flowing out of the community. He did not believe the local financial institutions were responsible for this outflow of funds, however. Rather, it was due to individuals investing outside the community. Another Hartington respondent believed financing is probably not adequate for older housing. The policy of the Farmers Home Administration concerning new versus old housing units was cited as an example.

Although the respondents were unanimous about housing and business investment funds within their respective cities, some believed that the availability of funds was not adequate for housing and business in the smaller neighboring communities and rural areas: "It is likely that some of the small towns nearby are not able to get adequate financing." "Although financing is adequate in Columbus, it could be better for the smaller communities." "Money is not adequate in the smaller rural communities and in the county."

B. Financial Institution Representatives

Factors Considered in the Lending Decision

Nine of the 11 financial institution representatives were asked to discuss the factors they considered when making a home mortgage, home improvement or business loan, assuming the person requesting the loan is a qualified borrower. According to the lenders, the age and condition of the house are the most important factors in their decisions on making and setting terms for home mortgages. The length of loans are shorter and the percentage of the value loaned is not as high on older homes as on new homes. Next in importance are the market-value of the house and the location of the property. One lender said the basic factor was whether the Farmers Home Administration would approve the loan.

Two lenders have policies against making home improvement loans unless they hold the first mortgage on the home. It is the policy of another to guide applicants for home improvement loans into government programs where interest rates are lower. Although most institutions did not have set loan-to-value ratios, one lender did indicate their institution did not care to go beyond two-thirds of the value of the house.

Many of the factors considered in making commercial loans are the same as those considered in making home loans: the condition of the structure, the length and amount of the loan and the borrower's ability to repay the loan. Other factors, however, are also considered to have an important bearing on making commercial loans: the type of business and its income potential, the structure's adaptability to other uses and the borrower's equity in the business.

Loan Practices with Respect to Smaller Neighboring Communities

The lenders reported that their institutions, for the most part, scrutinize loan applications from smaller neighboring communities and rural areas much more closely. Seven of the nine responding to this question indicated a reluctance to deal in real estate in small rural communities. The following statements vividly portray the nature of the problem:

> You have to look at a place like you were going to own it someday. Some of these small towns are declining and it is our policy not to loan in these communities.

> If it (the loan request) is for a high percentage loan, we can't help. We have no way of knowing the market and we couldn't get private mortgage insurance. . . .It is our job to make the best use of our depositors' savings and going to rural areas is risky. We are highly regulated by federal examiners and they would be critical if good loans are not made--and the loans in rural areas are not good loans.

Practices Employed to Avoid Making Undesirable Loans

The representatives were also asked to identify practices used by any financial institutions in their city to avoid making what they consider to be undesirable loans. Ten representatives responded to this question. The results, presented in Table 20, indicate that at least eight of the 11 practices are utilized to some extent by financial institutions in the State's non-metropolitan areas. These practices, however, appear to be much less prevalent in non-metropolitan communities than in Omaha's and Lincoln's declining neighborhoods.

C. Suggestions to Encourage Greater Investment

The respondents in the five non-metropolitan communities were asked for suggestions to encourage greater housing and business investment in

TABLE 20

METHODS USED TO AVOID MAKING UNDESIRABLE LOANS
Financial Institutions in Non-Metropolitan Areas

Method	n=10 Yes	No
(1) Requiring down payments of a higher amount than are usually required for financing comparable properties in more urbanized areas;	2	8
(2) Fixing loan interest rates in amounts higher than those set for all or most other mortgages in more urbanized areas;	2	8
(3) Fixing loan closing costs in amounts higher than those set for all or most other mortgages in more urbanized areas;	1	9
(4) Fixing loan maturities below the number of years to maturity set for all or most other mortgages in more urbanized areas;	1	9
(5) Refusing to lend on properties above a prescribed maximum number of years or age;	2	8
(6) Refusing to make loans in dollar amounts below a certain minimum figure;	1	9
(7) Refusing to lend on the basis of presumed "economic obsolescence" no matter what the condition of an older property may be;	2	8
(8) Stalling on appraisals to discourage potential borrowers;	0	10
(9) Setting appraisals in amounts below what market value actually should be, thus making home purchase transactions more difficult to accomplish;	1	9
(10) Applying structural appraisal standards of a much more rigid nature than those applied for comparable properties in more urbanized areas;	0	10
(11) Changing discount "points" as a way of discouraging financing.	0	10

n = number of respondents.

their respective communities and in the surrounding rural areas and smaller neighboring communities. Non-metropolitan/metropolitan responses to the question differed from metropolitan responses in one aspect: the need for employment opportunities.

Hartington residents agreed almost unanimously that attracting industry was essential to stimulate investment in the area. The Hartington Community Development Corporation was established in response to this need. Consisting of local businessmen, professionals, farmers and area residents, the Development Corporation has widespread local cooperation and the commitment of the City. An industrial development site has been selected and readied for use. It was stated that, although the State has played an important role in Hartington's efforts to provide a site and attract industry, it could do more to steer business into smaller rural communities. And although the City has gone on record in favor of industrial revenue bonds to help encourage more business investment, several Hartington respondents noted the County should also go on record as being in favor of the concept.

Respondents in Beatrice, Broken Bow and Lexington also cited the need for more industry, while the Columbus respondents were generally satisfied with their growth and growth potential. In fact, major concern in Columbus was how to provide for orderly growth.

In Lexington, there was a general concern that City regulations requiring completed streets and utilities before development could begin were an unnecessary barrier to development. To a limited extent this was also cited by respondents in Hartington and Columbus, but other respondents in these two communities countered by citing the need for such regulations.

The need for incentives to homeowners, renters and builders was also noted by respondents in each of the communities. The most commonly mentioned incentive was lower interest rates for the purchase of homes; one respondent believed interest rates should be subsidized for low- and middle-income housing only. Other comments were: "The Farmers Home Administration and the Federal Land Bank could encourage more investment in older housing units by changing the requirements for obtaining loans." "FmHA should modify its limitations on income and loan amounts." "Don't punish via taxes the person who improves his home." Another respondent noted that FmHA could encourage greater investment in the smaller neighboring communities by working with savings and loan associations through an agreement to insure and service loans in them.

Respondents also indicated that cutting the red tape associated with government programs was needed to encourage more investment. The length of time taken by FmHA for approval of loans was cited by several respondents as an example of excessive red tape. A summary of the suggestions for expanding investment in non-metropolitan communities is provided in Table 21.

TABLE 21

SUGGESTIONS FOR FACILITATING GREATER INVESTMENT IN NEBRASKA'S NON-METROPOLITAN COMMUNITIES

Suggestions	n=38 Number
Attract more industry	18
Stricter zoning, codes enforcement and subdivision regualtions	6
Relax zoning, codes enforcement and subdivision regulations	6
Improve public services and facilities (transportation, recreation, utilities)	5
Financial incentives in form of low interest loans	5
Less FmHA restrictions on income, length and amount of loans, and age and type of unit	3
Cut government red tape, including FmHA appraisal time	3
Banks and savings and loan associations should be doing more to provide investment funds	2
Stabilize farm prices and economy	2
Subsidize low and moderately priced homes	1
Provide more elderly housing units	1
Decrease government controls	1

n = number of respondents.

Chapter V

VIEWS ON ENCOURAGING HOUSING AND BUSINESS INVESTMENT

Suggestions for encouraging investment in declining urban neighborhoods and non-metropolitan communities are presented in this chapter. These strategies were offered by the lenders, realtors, landlords, businessmen and government officials interviewed during the course of the study. Presented in Table 22 is a summary of views obtained, indicating the relative importance given each suggestion by representatives of the private sector in Omaha and Lincoln and by government officials.

The private sector representatives stressed incentives related to tax relief and subsidies along with neighborhood rehabilitation projects. Of these, Omahans were more likely to stress neighborhood rehabilitation while Lincoln respondents were more likely to stress tax relief and subsidies. Government officials tended to stress tax relief and subsidies.

The views of private sector representatives concerning declining urban neighborhoods are analyzed in detail in Part A and those of the government officials concerning both declining urban neighborhoods and non-metropolitan communities in Part B.

A. Private Sector, Omaha and Lincoln

Financial institution representatives, realtors, landlords and businessmen comprised the private sector in Omaha and Lincoln. Each was asked for suggestions on encouraging lending in the declining urban neighborhoods of their respective cities. Because the interviews with the lenders and realtors were of a personal, in-depth nature, more detail was obtained from respondents in these two groups.

Financial Institution Representatives

Lenders in Omaha and Lincoln were provided a list of eight strategies for increasing urban lending. The strategies, which were those most favored

TABLE 22

SUMMARY OF VIEWS ON INCENTIVES TO ENCOURAGE HOUSING AND BUSINESS INVESTMENT

Suggestion	Total	Private Sector Omaha n=270	Private Sector Lincoln n=102	Government Officials n=17
COMMUNITY IMPROVEMENT:				
Undertake urban renewal, rehabilitation, fix-up and clean-up programs	79	58	20	1
Educate homeowners	13	10	3	-
Provide more low-income housing	3	-	3	-
Improve use of Community Devleopment Funds	3	3	-	-
Re-institute 235 Program and extend to include rehabilitation	2	-	2	-
Discourage rehabilitation of homes	1	1	-	-
Urban Homesteading	2	1	-	1
Voluntary Fair Housing Market Plan	1	-	-	1
Encourage local leadership through neighborhood improvement associations	3	-	-	3
FINANCE AND TAXATION:				
Permit tax deferments, credits, or exemptions	58	28	18	12
Subsidize homeowners, renters and builders	40	24	8	8
Improve loan insurance and/or pool loan funds	15	13	1	1
Create State Housing Finance Agnecy	4	1	-	3
Decrease home mortgage subsidies	1	1	-	-
PUBLIC SERVICES AND FACILITIES:				
Improve streets and transportation	16	15	1	-
Improve law enforcement	14	10	4	-
Improve parking in business districts	13	11	2	-
Improve weed, rat and trash control	8	5	3	-
Improve recreation	1	1	-	-
Improve water supply and sanitary sewerage	3	-	-	3
Provide better health care	1	-	-	1

TABLE 22
(Continued)

SUMMARY OF VIEWS ON INCENTIVES TO ENCOURAGE HOUSING AND BUSINESS INVESTMENT

Suggestion	Total	Private Sector Omaha n=270	Private Sector Lincoln n=102	Government Officials n=17
ECONOMIC DEVELOPMENT:				
Provide more jobs and purchasing power	11	10	0	1
Attract industry	3	3	-	-
Improve responsiveness to needs of business	10	9	1	-
Establish job training program	1	-	-	1
GOVERNMENTAL POLICIES:				
Decrease government controls; cut red tape; improve administration of programs	36	23	8	5
Modernize building, housing and zoning codes	27	10	13	4
Adopt better land use controls	7	-	-	7
Cut welfare programs	5	5	-	-
Increase Government controls	4	-	4	-
Adopt community growth policies	4	-	-	4
Review role of financial institution	2	-	2	-
Use local and State Human Relations Boards to mediate loan application refusals	3	-	-	3

n = number of respondents.

by lenders in a recent Rutger's University study,[62] included:

1. Faster-cheaper mortgage foreclosure procedures especially for abandoned or abused properties.
2. Homeowner and management counseling.
3. Property tax abatement--deferment for housing rehabilitation.
4. State-local demolition of abandoned-deteriorated properties.
5. Government encouragement of resident versus absentee landlords.
6. Improved FHA-VA mortgage insurance.
7. Raising the usury ceiling on urban mortgages.
8. Governmental job training programs in urban neighborhoods.

Each of the Omaha and Lincoln lenders was provided this list and asked to check those strategies which they favored. Responses obtained from the question are presented in Table 23. "Faster-cheaper mortgage foreclosures," "homeowner counseling," "demolition of deteriorated properties" and "property tax abatement" led the list in Omaha. With the exception of property demolition, the same strategies were most favored in Lincoln. Also favored in Lincoln was "governmental job training programs."

The response rates differed somewhat between Omaha and Lincoln. While five of the eight strategies were favored by at least 50 percent of the Omaha lenders, none of the strategies received 50 percent of the votes in Lincoln. This is partly accounted for by the fact that several Lincoln respondents expressed the opinion that Lincoln does not have a serious problem with housing and business investment. It is also worth noting that "governmental job training programs" was at the top of the Lincoln list and second from the bottom on the Omaha list. This may be due partly to the fact that Omaha is more extensively involved in job training programs and, consequently, lenders saw no reason to expand the effort.[63]

Suggestions for Encouraging Investment in Declining Urban Neighborhoods. The lenders were next asked, "Is there anything else you think is necessary to encourage more housing and business investment in the deteriorating areas of the City?" and "Do you know of any City, State, or Federal governmental

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[62] George Sternlieb, "The Urban Financing Dilemma," a statement for the U.S., Congress, Senate, Committee on Banking, Housing and Urban Affairs, Home Mortgage Disclosure Act of 1975, 94th Congress, 1st Session, 1975, p. 573.

[63] On a per capita basis, the allocation of manpower training funds to Omaha is more than 40 percent higher than Lincoln's allocation.

TABLE 23

ATTITUDES TOWARD STRATEGIES FOR GREATER URBAN LENDING

Omaha and Lincoln Financial Institution Representatives

	Those Favoring			
	Omaha		Lincoln	
	n=22		n=15	
Strategy	Number	Percent	Number	Percent
Faster-cheaper mortgage foreclosure procedures especially for abandoned or abused properties	15	68.2	7	46.7
Homeowner and management counseling	15	68.2	7	46.7
State-local demolition of abandoned-deteriorated properties	14	63.6	6	40.0
Property tax abatement-deferment for housing rehabilitation	13	59.1	7	46.7
Government encouragement of resident versus absentee landlords	11	50.0	5	33.3
Improved FHA-VA mortgage insurance	9	40.9	5	33.3
Governmental job training programs in urban neighborhoods	6	27.3	7	46.7
Raising the usury ceiling on urban mortgages	1	4.5	1	6.7

[a]/Two representatives did not feel qualified to speak to the question.

n = number of respondents.

regulations or practices which may be acting as barriers to investment in the deteriorating areas of the city?" A compilation of the responses is presented in Table 24.

In Omaha, community development programs (urban renewal, rehabilitation and renovation, and the Riverfront Development Program) were cited most frequently as strategies for increasing investment. Three lenders also commented that a wiser use of Community Development funds is needed. Regarding the latter, one said Community Development funds should be put into the hands of organizations that can use them effectively, stating, "As it is currently being used, area residents are the scapegoats." According to the lender, there are two basic problems: (a) too little funding per area and (b) unqualified people in the community groups. Another stated that Community Development funds were not being used to take full advantage of the multiplier effect; although certain projects have a larger multiplier effect than others, they are not being funded because a major concern of the program is to satisfy pressure groups.

This was followed by suggestions that investment incentives be provided and that city services be improved. Regarding the former, four lenders specifically referred to Omaha's Public Interest Lenders Agency (PILA). Other lenders suggested the need for tax incentives, through rebates or credit for property improvement, and interest supplements to encourage more investment.

Recommendations regarding public services included the need for better weed, rat and trash control, more crime control, and changes in code enforcement. On the latter point, two lenders cited a need to relax codes while one suggested that stricter code enforcement is needed.[64]

Three lenders noted a need for more "pride of ownership," greater "responsibility on the part of the buyer to maintain the property," and the need to "make the end-consumer aware of the factors that maintain value and stability."

One lender suggested that the State government should create a "bank housing finance agency" to issue tax-exempt bonds to purchase residential and multi-family mortgages in declining areas throughout the State. These

[64]Those citing a need for relaxed codes enforcement noted that the codes: (a) keep people from doing the work themselves and push up the cost, and (b) are not as necessary for the older, smaller units, which, for example, do not need the same certified wiring as the newer, larger units.

TABLE 24

SUGGESTIONS FOR ENCOURAGING INVESTMENT
IN THE DECLINING NEIGHBORHOODS OF OMAHA AND LINCOLN

Financial Institution Representatives

Suggestion	Omaha n=24	Lincoln n=15
COMMUNITY IMPROVEMENT:		
Neighborhood rehabilitation and renovation projects	5	2
Urban renewal	3	1
Better use of Community Devleopment Funds	3	-
Riverfront Development	2	-
Complete North Freeway	1	-
INVESTMENT INCENTIVES:		
Tax incentives (tax deferments, credits for investment in the areas)	3	4
Financial incentives (low interest loans, subsidizing of investors)	3	-
Public Interest Lenders Agency	4	-
Improved loan insurance programs	2	-
Create State Housing Finance Agency	1	-
Urban Homesteading	1	-
PUBLIC SERVICES:		
More weed, rat and trash control	2	-
More crime control	2	1
More parking for business districts	-	1
OTHERS:		
Relaxed codes enforcement	2	1
Stricter codes enforcement	1	1
Cut government red tape	3	2
More responsible homeownership (pride of ownership)	3	1
Economic development efforts	2	-
Review role and performance of savings and loan associations	-	2
Re-invest state tax funds within the state	-	1
Ease Federal Credit Union restrictions	1	-

n = number of respondents.

mortgages could be originated and serviced by the private sector, but funded or guaranteed by the State housing agency.

Other comments included the need for: (1) a cut in governmental red tape, (2) relaxed lending restrictions on Federal Credit Unions, (3) relaxed guidelines on loans the various Federal agencies and programs will accept, (4) a shorter time period for foreclosures, (5) completion of the North Freeway, and (6) more economic development efforts.

The response pattern differed for the Lincoln lenders,, nearly one-third of whom thought enough (or in some cases too much) was already being done to encourage housing and business investment in Lincoln. One lender, for example, said Lincoln has "enough government," while another stated "Lincoln is already doing plenty, particularly through the Housing Authority and the Community Development Program."

One Lincoln respondent indicated a need for greater responsibility on the part of the homeowner, and that once homeowners start maintaining their units more lending will take place.

The remaining Lincoln lenders focused on the need for: (1) tax incentives, (2) improved city services, (3) less government delay, and (4) community development projects.

Regarding tax incentives, one respondent suggested the assessment ratio on business properties in the inner city is too high and that more frequent assessments would help. The others referred to the need for a tax freeze or rebate. Improved city services mentioned included the need for better police protection and changes in codes enforcement policy. In the latter case, one person referred to stricter codes enforcement while another suggested relaxed codes enforcement.

Comments related to government delay and red tape included a complaint that the Federal Housing Administration needs to speed up its claims process. Two others mentioned excessive red tape as well as unnecessary government regulations for a city the size of Lincoln.

Suggestions for community development programs were offered by 20 percent of the Lincoln respondents. It would appear, therefore, that the need for community development is less pressing in Lincoln than in Omaha--where 59 percent suggested community development programs.

Disclosure of Lending and Deposit Information. Some cities and states have adopted laws requiring financial institutions bidding for government deposits to disclose geographic lending and deposit information. The lenders were asked whether they would favor such a law.

For the most part, lenders opposed this concept. In Omaha, 15 said they were not in favor, three were in favor and two were neutral.[65] Opposition to such a concept was even stronger in Lincoln, where 12 of the 15 respondents stated they were against such a law and the other three indicated they were neutral.

Comments in opposition centered on: (1) the amount of paperwork involved for the benefits, if any, (2) the unnecessary extension of government control, (3) the belief that a disinvestment problem does not exist (particularly from the standpoint of the Lincoln lenders), and (4) the failure of such a law to address the issue of sound investment practices. Regarding the latter point, an Omaha lender stated "[our] primary concern is to protect the saver and make prudent investments." Another stated that "supervisory government agencies still require prudent lending." A third lender responded "That's the worst kind of law. We have a responsibility to our depositors," adding, "West Omaha banks would have it made." Similar sentiments were prevalent in the Lincoln comments.

Those in favor of such a law indicated that it would make the lenders more aware of their responsibilities to their depositors. As one Omaha lender replied, "If you are getting deposits from a particular area, you should expect to put money back into it."

<u>Review Committee for Claims of Unfair Lending Practices</u>. Some cities have established committees of lenders and public officials to review claims of unfair or unreasonable denial of mortgages with the authority to place loans among member firms if the claims are substantiated. The lenders were asked if they would favor such an ordinance.

Fourteen Omaha lenders opposed the review committee concept and five favored it. In Lincoln, eight opposed the concept and four were in favor.[66] Several of the Omaha lenders offered the Public Interest Lenders Agency as a substitute. One lender summed up the feelings of many by saying, "We are not in favor of any authority which might have the effect of thwarting

[65]Two lenders refused to respond and two others did not feel qualified to speak to the issue.

[66]Three Omaha lenders were neutral and one Lincoln lender said he did not know.

the credit judgment of loan officers." If an individual feels that he has had unfair treatment, he should go to the lending agency's regulatory agency."

Realtors

The 34 realtors interviewed were asked to discuss their views on barriers to investment and methods of encouraging investment in the declining neighborhoods of their respective cities. A summary of survey results is presented in Tables 25 and 26.

About one-third of the Omaha realtors (7 of 22) cited deterioration and declining property values as a major barrier to investment. Unqualified borrowers, insufficient demand for housing, and the unavailability of financing were also cited as major barriers. Other barriers mentioned in Omaha included high crime rates, racial problems, poor city services, excessively strict building and zoning codes, and strict FHA property improvement requirements.

Forty percent of the Lincoln respondents mentioned deterioration and declining property values as major barriers to investment. Four of the 12 realtors commented that financing was not available (or the terms were unreasonable) for housing in the declining areas and three suggested that there is an insufficient demand for housing in the areas. Poor city services, high crime rates, and the age of the property were also cited as barriers to investment in Lincoln.

To encourage housing and business investment, the most common reply from Omaha realtors referred to neighborhood improvement programs (including urban renewal and the Riverfront Development Project). Suggestions for financial assistance such as low interest home loans and increased subsidies to homeowners, renters and builders willing to invest in the areas and for mortgage insurance and tax relief were also frequently mentioned. Similar methods were also cited by the Lincoln realtors.

Businessmen

Although the reactions of the 227 businessmen interviewed in Omaha and Lincoln ranged from suggestions for massive urban renewal to suggestions that the welfare system should be eliminated, most of the comments can be classified into one of four groups: (1) community development programs, (2) investment (tax and financial) incentives, (3) public service

TABLE 25

BARRIERS TO HOUSING AND BUSINESS INVESTMENT
IN DECLINING NEIGHBORHOODS

Realtors

Barriers[a]	Omaha n=22	Lincoln n=12
Deteriorating area, declining property values	7	5
Poor city services, public facilities and/or schools	1	2
Zoning and building codes too strict	2	-
High crime rates	3	1
Racial problems	3	-
Financing not available/reasonable terms not available	2	4
Insufficient demand	3	3
High risk area	1	-
Interested buyers not qualified	4	-
Age of property	-	1
FHA property improvement requirements too strict	1	-

[a] In Omaha, 22 realtors offered 27 barriers and in Lincoln 12 realtors offered 16 barriers.

n = number of respondents.

TABLE 26

SUGGESTIONS FOR ENCOURAGING INVESTMENT
IN THE DECLINING NEIGHBORHOODS OF OMAHA AND LINCOLN

Realtors

Suggestions	Omaha n=22	Lincoln n=12
COMMUNITY IMPROVEMENT:		
Neighborhood rehabilitation and renovation projects	4	4
Urban renewal	3	–
Housing and credit counseling	3	1
Re-institute 235 Program and extend to include rehabilitation	–	2
Provide more low-income housing	–	2
Discourage the rehabilitation of homes	1	–
INVESTMENT INCENTIVES:		
Financial incentives (low interest loans, subsidization of investors)	6	4
Tax incentives (tax rebated, credits for investment in the areas)	4	3
Improve loan insurance programs/provide a pool of funds for high risk loans	6	1
PUBLIC SERVICES:		
Improve law enforcement	3	1
Improve public facilities	1	–
Improve streets, parking and transportation	1	1
More weed, rat and trash control	1	2
OTHERS:		
Modernize building, housing and zoning controls	4	4
Decrease government controls	2	3
Increase government controls	–	4
Provide more jobs	1	–
Decrease home mortgage subsidies	1	–

n = number of respondents.

improvements, and (4) decreased government involvement. See Table 27 for a summary of responses.

The response patterns of Omaha and Lincoln businessmen did differ somewhat. Lincoln businessmen, for example, were less inclined to comment that decreased government controls were needed, less inclined to emphasize the need to improve public services, and more inclined to place the burden of improvement on themselves. With regard to the latter point, none of the Omaha businessmen noted that businessmen should do more to maintain their property, while eight percent of the Lincoln businessmen specifically stated that the burden was on them to do a better job of maintaining their property.

Landlords

Omaha and Lincoln landlords were also asked what they thought necessary to encourage more housing investment in the older, declining areas of their respective city. The most common response in both cities referred to community improvement programs (including urban renewal, neighborhood rehabilitation and neighborhood clean-up programs). This was followed by suggestions for financial and tax incentives such as low interest loans for prospective buyers, rent supplements, subsidized loans for contractors to build low-to-middle-income units, and property tax exemptions.

Other suggestions for increasing investment included improved public services such as street repairs, trash removal and weed control, less government controls, improved government programs (including improved FHA insurance) and fewer welfare-type programs. A summary of the responses is presented in Table 28.

B. Government Officials

The CAUR staff interviewed ten city and county governmental officials in Omaha and Lincoln, four State and three Federal officials during the course of the study. The major purposes of these interviews were to obtain their views regarding (a) local, State and Federal policies and practices which might be hampering housing and business investment; (b) the impact on housing and business investment of improving public services and facilities, changing zoning and codes enforcement policies, and adopting an official neighborhood improvement policy; and (c) what might be done at the local, State and Federal levels to remove barriers and provide incentives

TABLE 27

SUGGESTIONS FOR ENCOURAGING INVESTMENT
IN THE DECLINING NEIGHBORHOODS OF OMAHA AND LINCOLN

Businessmen

Suggestion	Omaha n=174[a]	Lincoln n=53[a]
COMMUNITY IMPROVEMENT:		
Neighborhood rehabilitation and renovation projects	21	5
Urban renewal	4	-
Riverfront Development	3	-
Better building maintenance on part of businessmen	-	4
Clean up manufacturing	1	-
INVESTMENT INCENTIVES:		
Tax incentives (tax rebates, credits for investment in the areas)	20	11
Financial incentives (lower interest loans, subsidization of investors)	11	1
PUBLIC SERVICES:		
More parking for business districts	11	1
Improve streets and transportation	12	-
Improve law enforcement	5	2
ECONOMIC DEVELOPMENT:		
Provide more jobs and purchasing power	3	-
Attract industry	3	-
Attract conventions	1	-
Improve responsiveness to needs of business	9	1
OTHERS:		
Modernize building housing and zoning codes	3	7
Decrease government controls	17	2
Cut welfare programs	3	-
Improve government efficiency	-	1

[a] Sixty-two of the 174 Omaha businessmen and 19 of the 53 Lincoln businessmen had no suggestions for encouraging more investment.

n = number of respondents.

TABLE 28

SUGGESTIONS FOR ENCOURAGING INVESTMENT IN THE DECLINING NEIGHBORHOODS OF OMAHA AND LINCOLN

Landlords

Suggestion	Omaha n=50[a/]	Lincoln n=22[a/]
COMMUNITY IMPROVEMENT:		
Neighborhood rehabilitation and renovation projects	11	3
Urban renewal	1	-
INVESTMENT INCENTIVES:		
Financial incentives (low interest loans, subsidization of investors)	4	3
Tax incentives (rebates, credits for investment in the area)	1	-
PUBLIC SERVICES:		
More weed, rat and trash control	2	1
Improve transportation	1	-
More playgrounds	1	-
OTHERS:		
Economic development efforts	3	-
More property maintenance	3	1
Cut welfare	2	-
Housing Authority should improve its property	-	1
Improved Federal home insurance programs	1	-
Provide low income housing	-	1
Decrease government control	1	-

[a/] Twenty-nine of the 50 Omaha landlords and 13 of the 22 Lincoln landlords had no suggestions for encouraging more investment.

n = number of respondents.

to increase investment in these areas.[67]

More detail on the departments and agencies represented is given in Appendix A, METHODOLOGY, and the questionnaire used for the interviews is included in Appendix B, QUESTIONNAIRES. Local government officials from the five non-metropolitan communities were also interviewed; their responses, however, are reported in the section concerning the views of non-metropolitan respondents.

Barriers to Investment

On the subject of local, State and Federal policies and practices which might be barriers to housing and business investment, the officials interviewed offered 52 comments and suggestions. These are summarized in Table 29. The primary views expressed by the officials are presented in this section.

Local Level. Seven officials cited county tax assessment practices as investment barriers on the local level. Two current tax assessment practices by county tax assessors are believed to be hampering investment, particularly in declining neighborhoods. The first is the failure of county assessors to adjust tax assessments on a regular, timely basis. Counties, it is believed, have not geared up to keep appraisals up to date. Consequently, property in new suburban areas where property values are rising tends to become under-assessed over time and property in older declining areas where property values are falling tends to become over-assessed. The second is the practice of adding the value of improvements to the existing assessment of the property. In older areas where property values are declining this practice acts to increase inequitably the property tax burden on the person who improves his property. The net result is to give a tax break to the the median- and upper-income residents of newer suburban areas and to penalize the low-income residents of older declining areas. This increased tax burden on the homeowner, landlord and businessmen in

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[67]The officials were also asked to discuss disinvestment and its causes, assuming it does occur. Only one of the officials had direct knowledge of a lending institution which refused to invest in certain neighborhoods, and this case involved a Federal credit union which refused a conventional loan to a member for property located in North Omaha. The credit union was, however, willing to give a personal loan for the same amount at higher interest and a shorter term.

TABLE 29

BARRIERS TO HOUSING AND BUSINESS INVESTMENT

Government Officials

		Local		State	Federal
	Total	Omaha n=5	Lincoln n=5	n=4	n=3
Local Level					
County tax assessment practices	7	4	1	2	-
Deterioration of facilities and services in older areas (streets, schools, law enforcement, etc.)	5	1	1	1	2
Restrictive, unreasonable or non-existent zoning, building, mobile home and similar codes and poor codes enforcement	3	1	-	-	2
Lack of community water and sewerage systems in non-metropolitan areas	2	-	-	1	1
Financing public facilities through special assessments	1	-	1	-	-
Protracted acquisition of properties for public purposes	1	-	1	-	-
Unwillingness of counties to accept and maintain new streets	1	-	-	-	1
Reluctance of county attorneys to condemn dilapidated and unsafe properties	1	-	-	1	-
Sub-Total	21	6	4	5	6
State Level					
Property tax laws	4	1	2	1	
Prohibition against using public funds to rehabilitate private structures	3	2	1		
Inadequate legislation for public aquisition of tax delinquent property	3	3	-	-	-
Statutory requirements of referenda on urban renewal, sewer and school bonds, etc.	2	1			1

TABLE 29
(Continued)

BARRIERS TO HOUSING AND BUSINESS INVESTMENT

Government Officials

	Total	Local Omaha n=5	Local Lincoln n=5	State n=4	Federal n=3
State Level (Con't.)					
Unreasonable and inconsistent requirements	2	—	—	1	1
Sub-Total	14	7	3	2	2
Federal Level					
Restrictive inflexible policies	7	1	4	2	-
Inconsistent, non-uniform policies	5	3	1	-	1
Instability of policies	3	1	1	1	-
Inadequate financing of programs	1	—	—	1	—
Sub-Total	16	5	6	4	1
Total	52	21	13	9	9

n = number of respondents.

declining neighborhoods decreased their capacity to pay for needed improvements.

Five officials stated the tendency for local governments to allow facilities and services to deteriorate as neighborhoods and communities age discourages housing and business investment. According to these officials, streets and public utilities--gas, electric, water and sewer lines--are allowed to deteriorate, school boards want to close down the older, high-maintenance schools in older neighborhoods, park and recreation departments concentrate on new facilities in the suburbs, and services such as law enforcement are provided at different levels in older, declining neighborhoods than the suburbs. "Services tend to follow affluence to the suburbs. The bigger the city the bigger the problem," is how one official described the process.

Three officials pointed to unreasonably restrictive building, zoning, and mobile home codes, and poor code enforcement, as inhibiting housing and business investment especially in non-metropolitan communities. Codes enforcement officials in non-metropolitan communities, it was said, often lack proper training.

The other comments, although made by only one official each, should be noted because they relate to the foregoing "barrier."

The first pertained to the practice of financing street and related improvements through special assessments. In both Omaha and Lincoln the major portion of such improvement costs are financed through special assessments against the abutting, or benefited, properties. The predominately low-income residents of declining neighborhoods, naturally, oppose the imposition of this additional tax burden on themselves and, when the opportunity arises to vote on these improvement proposals, they often vote them down. The result is that the public facilities continue to deteriorate and the neighborhood becomes less and less attractive for housing and business investment. The impact is more serious in Omaha than in Lincoln because Omaha requires payment of special assessments in not more than ten years whereas Lincoln allows up to 20 years for the payment of special assessments.

The second comment related to protracted property acquisitions by public agencies. A Lincoln official cited the case in which for the past ten years the City has been in the process of acquiring the right-of-way through the Clinton neighborhood for extension of Interstate I-80. This protracted acquisition process has discouraged owners from investing in their properties. Consequently, the area has tended to deteriorate, making lenders even more reluctant to loan in the neighborhoods. (An Omaha lender indicated this was also happening in the North Freeway area.)

A Federal official cited the lack of community water and sanitary sewerage facilities, and the high cost of providing individual systems for each residence or business, as factors inhibiting investment in non-metropolitan communities. A State official, in a related comment, said that the smaller rural communities are caught in a vicious circle: with present levels of housing and business investment in such communities there is no way they can provide adequate water and sanitary sewerage systems, streets and sidewalks and other needed community improvements with their own resources; yet, without these facilities they cannot hope to attract investment.

State Level. With regard to State policies and practices, as shown in Table 29, four officials identified Nebraska's property tax laws as hindering housing and business development in declining urban neighborhoods and non-metropolitan communities. These laws, along with the property tax laws of most other states, are said to penalize those who improve their properties by raising their tax assessments and, hence, their taxes. This process is held to constitute a disincentive to the owners of older property, particularly those with low incomes, to make the necessary expenditures to improve their property. They must shoulder the cost of the improvements and then they are faced with higher property assessments and higher taxes as a direct result of making those improvements.

Three officials, all from Omaha, cited present State legislation for public acquisition of tax delinquent properties as hindering housing and business investment in declining neighborhoods. In their view, this process is too complicated, too expensive, and too time consuming, even though the legislature recently reduced the time necessary from seven to five years. While the city is working through this five-year process the property continues to deteriorate, exerting a blighting influence on surrounding properties. Another part of this problem is the lack of a provision for other local governmental taxing authorities to relinquish their tax claims on the property so the city can obtain a clear title.

Three officials also cited the prohibition against using public funds to rehabilitate private structures as a barrier to investment. This obstacle, apparently, has been removed as far as Lincoln is concerned by the passage of LB815 in the 1974 Legislature. Extension of this authorization to Omaha and all other classes of municipalities in the State is being proposed in the 1976 Legislative Session.

The statutory requirements for voter referenda on urban renewal, school, sewer and water bonds, and unreasonable and inconsistent State requirements with respect to such things as septic tank sewerage disposal systems were cited by two officials each as barriers to housing and business financing.

Federal Level. Seven officials expressed the opinion that restrictive, inflexible Federal policies hamper housing and business investment. Federal environmental requirements were cited as adding to housing costs. Housing programs of the Department of Housing and Urban Development are designed for big cities and are not adaptable, in the opinion of several local and State officials, to the needs of non-metropolitan communities. Minimum income requirements for Federal Housing Administration mortgage insurance, for example, disqualifies many rural and small-town residents.

Five officials, including one Federal official, cited inconsistent Federal policies as hampering housing and business investment. One example given was the Department of Housing and Urban Development's emphasis on financing new homes in suburban areas through FHA loan guarantees, which encourages the exodus to the suburbs and undermines the efforts of that department's Community Development Block Grant program to upgrade declining neighborhoods. Another respondent cited a case in which the Department of Housing and Urban Development refused on environmental grounds to grant FHA mortgage insurance to a project; the applicant then went to the Farmers Home Administration and got the project approved.

Three officials cited the lack of stability in Federal policies as contributing to increased housing and construction costs generally and hampering housing and business investment in declining neighborhoods particularly. It was charged that the recent tight money market, created by Federal policy, had virtually shut down the housing industry. Such extreme swings in home building activity raise the cost of housing substantially as the industry gears up and gears down rapidly in each cycle. It was pointed out that the rise in unemployment, which hits low-income persons hardest, was another consequence of this tight money market. Since low-income persons are concentrated in declining urban neighborhoods and many smaller rural communities, rising unemployment tends to further restrict housing and business financing in those neighborhoods and communities.

Assessment of Specific Policies and Their Impacts

The government officials interviewed were probed for their opinions of specific public policies thought to have critical impact on housing and business investment. The reactions of the officials regarding these policies are described in this section.

Public Services. In the eyes of the officials interviewed, improvements in public services and facilities are essential--"not a guarantee, but a necessary condition"--to stimulating more housing and business investment. As one official put it, "Better public services would permit landlords to raise rent which would stimulate investment." However, a State official cautioned that massive investments in public services and facilities would be needed in some areas to have significant effect.

Most of the officials believed that both Omaha and Lincoln are seriously trying to improve city services in their declining neighborhoods. One Lincoln official went on to say that all city services and facilities in Lincoln are "reasonably adequate, although people in certain areas might not agree with me." Inadequate services and facilities, to his knowledge, are not cited as reasons lenders refuse loan requests. Differentials in public services in declining areas vis-a-vis newer suburban areas were cited, however, by some Omaha officials as discouraging investment in declining neighborhoods.

Zoning. The effect of changes in zoning and zoning policy were thought to be very difficult to predict. With regard to declining urban areas, particularly, a change in zoning might stimulate investment in some areas, discourage it in others. Generally, downgrading the zoning of stable single-family residence areas to permit multi-family residential construction, it is believed, will discourage investment in the existing single-family residences, although it might well encourage investment in multi-family residences. On the other hand, upgrading the zoning of a mixed single- and multi-family residential area to single-family residence zoning might simply stifle all investment. Lenders might not be willing to loan on existing single-family residences because of the mixed character of the area and the single-family zoning would preclude investment in existing or new multi-family residences. Too many variables enter into the equation (the demand for and supply of multi-family versus single-family units, the condition of the area's housing stock, the availability of mortgage funds, and the condition of the area's public facilities) to predict the effect changes in zoning and zoning policy alone will have.

Most of the officials agreed that zoning was probably the weakest factor in the equation as far as declining urban neighborhoods are concerned. They were also agreed, however, that certain zoning policies and practices such as arbitrary and unreasonable requirements not clearly and directly related to a public purpose, permitting the conversion of single-family residences to multi-family residences and allowing the intrusion of business use into residential areas benefit individuals at the long-run expense of the community at large, and serve to discourage investment.

In conclusion, it was generally believed that zoning policy and its implementation should be an integral part of a community-wide, comprehensive neighborhood improvement policy and implementation program.

Codes Enforcement. There was strong consensus among the officials interviewed that vigorous enforcement of building, plumbing, heating, electrical and housing codes can encourage investment if coupled with programs to improve public services and facilities and to provide financing to bring deteriorated properties up to code standards.

One Omaha official, however, said Omaha's codes need to be rewritten to make them more specific to different types and ages of structures. Without these changes (he believes) rigorous codes enforcement may actually deter investment by requiring plumbing, electrical and/or heating improvements out of proportion to a structure's value.

Lincoln's codes, according to one of its officials, are as progressive and permissive as any in the country but the City should nudge people into making needed improvements on their property. This would encourage others nearby to do the same. The City, however, should also follow a flexible approach in applying codes to older houses. "Try to focus on eliminating hazards," he suggested.

A State official related that experience with the State's new Mobile Home and Manufactured Housing Code indicated that codes tend to have a negative initial impact on investment by raising costs. In the long-run, though, this code is expected to encourage mobile and manufactured home financing by ensuring more reliable quality; hence, more security for lenders. He believes much the same short-run/long-run factors operate with respect to other codes.

This same State official said the failure of many small rural communities to remove dilapidated structures, clean up junk and otherwise improve their appearance through the adoption and enforcement of the appropriate codes was a definite deterrent to housing and business financing in non-metropolitan areas.

Again, the officials interviewed thought codes adoption and enforcement should be an integral part of a community-wide, comprehensive neighborhood improvement policy and implementation program along with zoning and programs to improve public services and facilities and to provide adequate financing for needed property improvements. Otherwise, as one official put it, political pressures are very likely to soften enforcement and render the codes ineffective.

Neighborhood Improvement Policy. Officials interviewed endorsed the concept of an "official, community-wide neighborhood improvement policy and implementation program" for the metropolitan cities of Omaha and Lincoln and for the State non-metropolitan communities. Such a program, they believed, provides lenders, owners and residents assurance of the local government's long-term commitment to improvement. Lincoln officials believe its neighborhood improvement program is already encouraging investment in the City's declining neighborhoods.

There was consensus among the officials that the neighborhood improvement program must be comprehensive. Essential components cited are: (1) incentives to encourage financial institutions to provide the necessary housing and business investment capital in declining neighborhoods, (2) public action to rehabilitate or demolish deteriorated structures, (3) vigorous codes enforcement attuned to eliminating hazards in older structures, (4) tailoring of zoning controls to reinforce the long-range objectives of the neighborhood improvement program, (5) public investment to bring community facilities and services up to adequate standards, and (6) coordination of city, school, State and other public expenditures in declining neighborhoods with the neighborhood improvement program. The program, moreover, should be prepared with the fullest possible participation of residents through neighborhood improvement associations.

Investment Incentives

The officials interviewed also offered suggestions regarding further actions local governments, the State and the Federal government could take to encourage investment in declining urban neighborhoods and non-metropolitan communities. These are summarized in Table 30. This section discusses the primary views expressed.

Local Level. The largest proportion of the suggestions made by the officials pertain to actions to be taken by local governments. Leading this list, not surprisingly, was the suggestion that local governments should adopt better zoning and subdivision land use controls and improve their enforcement of such controls. The need to coordinate controls between cities and counties was also stressed.

Closely related to this incentive, was the suggestion by four officials that local governments adopt and implement a community-wide growth policy for anticipating and meeting future needs. Two officials stressed the need to modernize building, plumbing, electrical, heating and housing codes and to improve their enforcement. Sound controls, codes and enforcement were recognized as important means of implementing a community-wide growth policy.

Four State and Federal officials suggested that local governments should subsidize the loaning activities of lending institutions in declining neighborhoods and non-metropolitan communities. None of these officials, however, indicated how this might be accomplished or whether it would require changes in State enabling legislation.

Three officials recommended using local and State Human Relations Boards to mediate situations in which applicants believe lending institutions have unjustly refused their loan applications or have set terms the applicant feels unreasonable. These officials believed these Human Relations Boards already have authority to act in this role.

Three officials also suggested that more local leadership should be encouraged through such devices as neighborhood and community improvement associations. All three Federal officials stressed the need to improve water supply and sanitary sewerage facilities and to correct flood problems

TABLE 30

SUGGESTIONS FOR ENCOURAGING HOUSING AND BUSINESS INVESTMENT

Government Officials

	Total	Local Omaha n=5	Local Lincoln n=5	State n=4	Federal n=3
Local Level					
Adopt better land use controls and improve their enforcement. Coordinate controls between adjoining jurisdictions.	7	3	1	-	3
Adopt and implement community-wide growth policy to meet future needs, including housing.	4	2	1	1	-
Subsidize loaning activities	4	-	-	2	2
Improve water supply and sanitary sewerage facilities and correct flood problems in non-metropolitan communities.	3	-	-	-	1
Use local and State Human Relations Boards to mediate loan application refusals.	3	1	2	-	-
Encourage more local leadership through neighborhood improvement associations and similar organizations.	3	1	-	-	2
Modernize building, plumbing, electrical, heating and housing codes. Improve their enforcement.	2	1	-	-	1
Improve administration of city and county governments in non-metropolitan communities.	1	-	-	-	1
Improve administration of property assessments and taxes. Keep appraisals up-to-date. Increase accuracy of appraisals.	1	-	-	1	-
Ease restrictions on mobile homes in non-metropolitan areas.	1	-	-	-	1
Promote economic growth in non-metropolitan areas.	1	-	-	-	1
Establish training programs for building craftsmen.	1	-	-	-	1

TABLE 30
(Continued)

SUGGESTIONS FOR ENCOURAGING HOUSING AND BUSINESS INVESTMENT

Government Officials

	Total	Local Omaha n=5	Local Lincoln n=5	State n=4	Federal n=3
Local Level (Con't.)					
Provide better health care in non-metropolitan communities.	1	-	-	-	1
Establish a voluntary Fair Housing Marketing Plan.	1	1	-	-	-
Initiate Urban Homesteading program.	1	1	-	-	-
Reduce taxes in non-metropolitan areas.	1	-	-	-	1
Sub-Total	35	10	4	4	17
State Level					
Pass legislation authorizing tax deferments/credits, site value taxation and freezing of assessments on new development in declining neighborhoods.	8	3	1	2	2
Establish State Housing Authority and a State housing policy.	3	-	1	1	1
Establish State-wide codes policy.	2	1	-	1	-
Focus State aid on helping declining neighborhoods.	2	1	-	1	-
Exempt fixtures and equipment of new industries from the sales tax.	1	-	-	1	-
Permit local governments to rely more on sales and income taxes and less on property taxes for revenue.	1	1	-	-	-
Raise Homestead exemption	1	-	-	-	1
Sub-Total	18	6	2	6	4
Federal Level					
Restrict subsidies to areas in need of rehabilitation.	1	1	-	-	-

TABLE 30
(Continued)

SUGGESTIONS FOR ENCOURAGING HOUSING AND BUSINESS INVESTMENT

Government Officials

	Total	Local Omaha n=5	Local Lincoln n=5	State n=4	Federal n=3
Federal Level (Con't.)					
Establish accelerated depreciation allowances for new construction in delcining neighborhoods.	1	1	-	-	-
Liberalize Farmers' Home Administration's square footage and other requirements to encourage more investment in rural areas.	1	-	-	1	-
Appropriate funds to implement the Farmers Home Administration's loan program for moderate income persons.	1	-	-	-	1
Rebuild urban ghettos.	1	1	-	-	-
Enforce present laws more effectively.	1	1	-	-	-
Sub-Total	6	4	0	1	1
Total					

n = number of respondents.

in non-metropolitan communities in order to encourage housing and business investment in them.

State Level. Eight officials--more than half of those interviewed--suggested changes in the State's property tax laws to authorize local governments to grant tax deferments or credits, to move to a site-value taxation basis and to freeze assessments on new development as means to encourage investment in declining neighborhoods and non-metropolitan communities. Related to these was the suggestion to permit local governments to rely more on sales and income taxes and less on property taxes for revenue. One State official believed that exempting the fixtures and equipment of new industries from the sales tax would stimulate industrial development, while a Federal official believed raising the Homestead exemption several-fold would encourage investment in non-metropolitan communities.

Three officials endorsed the concept of a State Housing Authority and a definite State housing policy coupled with a State financial commitment to housing. The State's only involvement with housing at present is to provide technical assistance. It was believed that a State Housing Authority would be particularly beneficial for low-income persons in smaller non-metropolitan communities. A related suggestion by two officials was that the State should establish a policy on codes and promulgate a set of uniform codes for the State.

Two officials expressed the opinion that many state programs tend to favor suburban areas and suggested that State aid should be focused more on improving facilities and services in the older urban neighborhoods and non-metropolitan communities.

Federal Level. In speaking of Federal actions which could encourage investment in declining urban neighborhoods, an Omaha official suggested that Federal subsidies such as income tax exemptions for interest on mortgages and local property taxes be restricted to properties located in those neighborhoods. He also suggested that the Federal government establish accelerated depreciation allowances for new construction (and the substantial rehabilitation of older structures) in declining neighborhoods.

A State official suggested that the Farmers Home Administration liberalize its maximum square footage and other requirements to encourage investment in non-metropolitan areas, while a Federal official suggested that Congress appropriate funds to implement the Farmers Home Administration's loan program for moderate income persons.

Two other comments by Omaha officials were that the Federal government rebuild the urban ghettos and enforce its existing laws more effectively.

Attitudes Toward Disclosure of Geographic Lending and Deposit Information

The local government officials were asked whether they thought an ordinance requiring financial institutions bidding for city deposits to disclose geographic lending and deposit information would stop or reverse disinvestment.

Reactions were mixed. Two were quick to point out that mortgage banks do not seek city deposits; therefore, this requirement would have no effect on them. One stated that, in his opinion, mortgage banks are the heaviest "redliners," primarily because they have no ties with local governments and, therefore, are less sensitive to community needs and pressures. Other local officials believed that if the requirements were backed up with penalties, as with the Proxmire proposals for Federal legislation, then "they would have some teeth" and could have beneficial effects by identifying investment practices and thereby generating public pressure on lending institutions. Moreover, to be really effective the requirement should be extended to apply to other local governmental agencies such as school districts, housing authorities, the Metropolitan Utilities District and the Omaha public Power District; and to pass-thru money from State and Federal governments.

The thought was expressed that this requirement might well backlash on the city. Lenders might demand reciprocal action by the city to improve services and facilities in declining neighborhoods in order to make them more attractive areas in which to make loans.

In the opinion of one official legal requirements of this nature should be applied at the State rather than the local level, since regulating financial institutions is a state function. Local governments should concentrate on offering incentives to induce lending institutions to increase their lending activities in declining neighborhoods. A Lincoln official stated that the City of Lincoln has deposits in all eleven Lincoln banks. These banks also sell bus tokens and perform other services for the City. Asking them to do more might well be interpreted as too much government interference and might cause the banks to discontinue the selling of bus tokens and performance of these other services.

A pledge by lending institutions not to discriminate geographically? "Big deal; won't be effective," replied one official. "It would not only be arbitrary, it wouldn't do a bit of good. I can't see forcing financial institutions to make loans in areas they consider bad risks." Another official was also skeptical of its effect: "How would such a pledge be policed? I am not in favor of requirements that cannot be enforced."

Attitudes Toward Establishment of Loan Review Committees

The officials were next asked if they would favor a committee consisting of lenders and public officials to review claims of unfair or unreasonable denial of mortgages. The committee would also have authority to place loans among member firms if the claims are substantiated.

Some of the officials thought such a committee would have defininte value in publicizing situations, even if it had no enforcement power. It would also give lenders a chance to defend their decisions. It was suggested, though, that the committee's membership be broadened to include builders, realtors and citizens. Two of the officials thought the State and local Human Rights Commissions function in the same vein so there is no need for such committees. Further, a consortium like Omaha's Public Interest Lenders Agency, in which financial institutions establish a pool of investment capital for high-risk loans, was generally believed to be a much more promising approach. This, many of the officials believed, provides a mechanism for lending institutions to share these risks and grant loans collectively they would refuse individually.

Chapter VI

SUMMARY OF FINDINGS AND CONCLUSIONS

A. Chapter I: A Review of the Literature

- The problem of housing and business investment in declining urban neighborhoods and non-metropolitan communities is a problem of low investment, or disinvestment, in the face of an un-met demand for loans.

Many recent studies have demonstrated the existence of disinvestment in declining urban neighborhoods and non-metropolitan communities; few, however, have attempted to measure real demand.

"Redlining" occurs when financial institutions refuse to make loans, or offer less attractive loan terms, on the basis of the geographic area in which a property is located rather than on the credit worthiness of the applicant and the quality of the property itself. The term, redlining, derives from the early practice of drawing a red line on a map to indicate an area in which loans would be denied. Lenders no longer literally wield red pencils; the process is now much more subtle.

- Disinvestment is a complex process which tends to become a self-reinforcing cycle of disinvestment and decline.

One author suggests there are two major causes of disinvestment: spatial-racial discrimination and economic forces. Spatial discrimination refers to the bias lenders have against urban areas (especially the inner city), preferring suburban locations instead. A number of recent studies have detailed a relationship between disinvestment and the racial composition of an area. Others, however, indicate a purely economic relationship in which lending institutions apparently try to maximize their returns by minimizing their costs and their perceived risks.

The causal chain emerging from the studies shows disinvestment in an area leads to increased costs for the borrower, which in turn leads to inadequate maintenance or rehabilitation, which may lead to abandonment of the property and the decay of the entire area, which in its turn makes lenders even more reluctant to invest in the area.

According to the studies, other important causes for the blight in many inner-city areas, particularly, are their social instability as evidenced by such indicators as high crime rates and the inequitable level of services often provided by local governmental units. These factors act to reinforce the cycle of disinvestment and decline.

- Many parts of rural America are subject to the same process of disinvestment as are declining urban neighborhoods, with similar effects.

National data for 1971 on holders of single-family housing mortgages indicates that interest rates are higher and mortgage terms are shorter in non-metropolitan areas than in metropolitan areas. These conditions exert the same restraint on adequate maintenance and rehabilitation in rural areas as in declining urban neighborhoods.

According to the Senate Report on the Rural Development Act of 1972, small town banks, limited by small reserves and governmental regulations, attempt to maximize their return and minimize their risk by using their money for smaller loans over shorter periods of time and by investment in government bonds. The latter contributes to a flow of money from rural areas to metropolitan centers.

- Recent studies reveal evidence of housing and business disinvestment in Nebraska's declining urban neighborhoods and non-metropolitan areas.

During Congressional hearings on the Rural Development Act of 1972, Dr. David Hibler, a professor at the University of Nebraska at Lincoln, complained that virtually all of the 20 Lincoln area financial institutions he contacted in 1971 were unwilling or unable to provide re-financing for his rural home in Unadilla, Nebraska.

A 1975 study of business credit in two regions of rural Nebraska indicated that small non-farm businesses have difficulty in obtaining adequate amounts of long-term credit for capital expansion. Most respondents in a sample of 67 rural businessmen indicated a ten-year repayment plan was the maximum length obtainable, and only one-third reported that credit supplied more than 25 percent of the funds used.

The author of a 1972 study of 31 financial institutions in Douglas County concluded, "Although lenders feel they are fair to all potential borrowers, they really mean this in terms of the risks to be taken. As stated by many respondents, risks are a function of housing location and ability to pay. High risk is avoided. This means excluding from loan portfolios those properties where neighborhoods are deteriorating, even though the ability to pay may exist."

- The Federal government has taken many actions to combat the problem of disinvestment problems in both declining urban neighborhoods and in non-metropolitan areas.

The most recent addition to the battery of Federal laws and regulations is the Home Mortgage Disclosure Act of 1975. This Act requires banks, savings and loan associations, some credit unions and similar financial institutions to compile and make available for inspection information on home improvement loans, mortgage loans secured by residential real property, Federally insured mortgage loans and absentee-owner mortgage loans originated or purchased during the year (starting in 1975).

Section 203(b) of the National Housing Act establishes the basic Federal Housing Administration (FHA) home mortgage insurance program, while Section 203(i) provides mortgage insurance to finance the purchase of properties in rural areas. In addition, the National Housing Act has many other provisions dealing with special circumstances found in declining urban neighborhoods and non-metropolitan areas.

The programs of the Small Business Administration (SBA) represent the Federal government's primary thrust to stimulate business investment in declining urban neighborhoods and non-metropolitan areas. A 1972 staff report of the House Committee on Banking and Currency, however, revealed that although a massive demand exists for loans insured by the SBA, the nation's 50 largest banks had made only 3,306 loans utilizing SBA programs.

- Other states and local governments have enacted legislation or promulgated regulations intended to combat the problems of disinvestment and redlining.

California's disclosure requirement, which has been in effect since 1969 for state-chartered savings and loan associations, has been expanded recently to require data on deposits. Wisconsin has similar legislation and Illinois adopted similar legislation in 1975. Colorado has established a policy of adding one percentage point credit to State deposits for loan activity deemed to be especially beneficial to Colorado citizens and communities.

Chicago passed an ordinance in 1974 requiring disclosure of residential, consumer and commercial loan information, as well as deposit information, by census tract as a prerequisite for receiving City deposits.

- Local community organizations as well as financial institutions themselves have developed programs to increase investment in declining areas.

A number of local community groups have developed "greenlining" campaigns to monitor the activities of financial institutions. These sometimes use the threat to withdraw deposits if the financial institution does not agree to make more loans in the neighborhood.

Financial institutions themselves have formed consortia to pool capital and to share the risk of loans in declining areas. If a loss occurs it is passed on to the participating institutions in proportion to their participation in the pool. Notable among these is the Public Interest Lenders Agency in Omaha, created in January, 1976, by 23 leading financial institutions in the City.

B. Chapter II: Demand for and Availability of Housing and Business Investment Funds in Declining Urban Neighborhoods

- CAUR's survey indicates a substantial number of home purchase and home improvement loans are rejected in the declining neighborhoods of Omaha and Lincoln.

The rejection rates for home improvement and home purchase loans was found to be 28 percent with no significant difference between applicants in Omaha and Lincoln. A majority (83 percent) who had loan applications rejected cited personal problems, inadequate savings, age and/or poor credit as reasons. The remaining 17 percent who had their applications rejected noted property location as a factor.

- Home financing through conventional institutions (commercial banks and savings and loan associations) is less widely used in Omaha than Lincoln.

Homeowners in Omaha's declining neighborhoods were found less likely to have financed their homes through a bank or savings and loan association than Lincoln homeowners. Instead, financing through real estate companies and land contracts was used more frequently in Omaha. Part of this may be accounted for by the fact that the socio-economic characteristics of Lincoln homeowners (and renters) differ significantly from those of Omaha homeowners. Significant differences in home ownership, income, marital status, and age were found between the Omaha and Lincoln respondents. While 69 percent of the Lincoln respondents were homeowners, only 56 percent in Omaha owned their own homes. And, in contrast to Omaha homeowners, the Lincoln homeowners had a higher median income ($6,300 versus $5,200), a lower median age (52 years versus 57 years), and were more likely to be married (69 percent versus 59 percent). The Lincoln renters also had a higher median income ($5,400 versus $4,200), a lower median age (35 years versus 47 years), and were more likely to be married (44 percent versus 36 percent) than their Omaha counterparts.

- Landlords were more likely to cite "property location" as the reason for loan rejections than were homeowners or renters.

Nearly 60 percent (5 of 9) of the landlords who were refused loans to purchase housing in declining neighborhoods of Omaha and Lincoln cited location of the property as a factor in the loan rejection.

- CAUR's survey showed there is substantial potential demand in declining neighborhoods for home purchase loans over the next two years.

During the next two years there is an estimated $82 million potential demand which may be generated by Omaha residents for loans to purchase homes in declining neighborhoods of Omaha. An additional $8 million may be demanded for home improvement loans. In Lincoln potential demand for home purchase loans is estimated at $10 million and demand for home improvement loans at $1 million.

- Although the potential demand for loans to purchase homes "in the next two years" is greater for renters than for current owners, renters have little ability to finance the purchase of a home.

Eight percent of the Omaha homeowners and 20 percent of the Omaha renters indicated a desire to apply for a loan to purchase a home "in the next two years." Conversely, while the homeowners estimated they could contribute approximately $5,500 for a down payment and about $200 per month for payments, the renters could afford a down payment of only $800 and monthly payments of $125.

In Lincoln, three percent of the owners and 12 percent of the renters would like to purchase a home. Since the number of responses in Lincoln was much lower than in Omaha, only rough approximations of the amount of down payment and monthly payment could be obtained. The one homeowner who desired to purchase another unit said he could afford a down payment of $3,000 and a monthly payment of $300. One of the two renters who desired to purchase a home said he could afford a down payment of $3,000 while the other was not sure what he could afford. In terms of monthly payments, one could afford $100 and the other $200 per month.

The maximum down payment and monthly payments which renters--especially those in Omaha--said they could afford simply are not high enough to purchase standard quality housing at today's prices and home mortgage interest rates.

- Businessmen appear to have more difficulty obtaining loans in Omaha's declining neighborhoods than in Lincoln's.

Approximately 15 percent of the Omaha businessmen and 11 percent of the Lincoln businessmen had applied for a loan to expand, improve, relocate or--if renters--purchase their facility "in the last two years." None of the Lincoln businessmen had been rejected, while approximately 25 percent of the Omaha businessmen had their applications rejected.

- Applicants for business loans for the most part did not perceive the location of their property to be a major factor in loan rejection decisions.

Of the seven businessmen (all in Omaha) whose loan applications had been rejected, only two cited the location of their property as the reason when asked, "Do you think the location of your business had anything to do with the troubles you have had in arranging financing for your business?"

- Only Omaha businessmen reported significant difficulties in obtaining property insurance in declining neighborhoods. Homeowners and renters reported minor difficulties.

None of the 53 businessmen in Lincoln surveyed reported being turned down for insurance. There were several Omaha businessmen, however (11 of 74) who were either turned down or offered excessive premiums. Six of the eleven indicated property location as a factor when specifically asked, "Do you think the location of your business had anything to do with your troubles in getting insurance?"

About 18 percent of the homeowners and 10 percent of the renters interviewed had applied for property insurance "in the past two years." Most were successful. About one of every ten householders in Omaha and Lincoln who applied for insurance was turned down by at least one insurance company, while the other nine reported having no problems. Only a few of those rejected gave the "high risk" character of the neighborhood was a reason given for the rejection.

C. Chapter III: Lending Patterns and Policies in Declining Urban Neighborhoods

- Data on mortgage lending patterns show low levels of lending activity in the declining neighborhoods of Omaha and Lincoln in relation to the number of housing units in those neighborhoods.

In Omaha, although the eight Housing and Community Development (HCD) areas contain about 43 percent of all housing units in Douglas County, less than 12 percent of all mortgages were issued for properties in these areas during the period from January 1, 1973, through June 30, 1975. The spread is not as great in Lincoln. The four census tracts designated as HCD target areas contain about nine percent of the total housing units in Lancaster County, and accounted for four percent of the mortgages issued during this two and one-half year period.

It is to be expected that the demand for mortgage funds would not be as high in the older, developed parts of Omaha and Lincoln as in the developing suburbs. The wide discrepancies between the proportions of housing units and the levels of mortgage activities in these declining neighborhoods, however, indicate at least the possibility that the demand for mortgage loans in these areas is not being met.

Other significant points about lending patterns revealed by the data are: First, those institutions dealing primarily in the secondary money market, such as bank holding companies and insurance companies, tend to have low percentages of their mortgages in the declining neighborhoods. Second, in Omaha, banks tend to have higher percentages of their mortgages in the declining neighborhoods than do savings and loan associations. Third, real estate companies in Omaha dealing in mortgages have slightly higher than average percentages of loan activity in the declining neighborhoods.

- Location, although not as important as age and condition, is a significant factor in loan decisions by financial institutions.

Approximately 39 percent of the Omaha lenders interviewed and 36 percent of those interviewed in Lincoln indicated that a property's location in a declining neighborhood would be a factor in their decision whether to make a home mortgage loan on the property. At the same time, about 44 percent of those in Omaha and 57 percent in Lincoln listed the age of the property as a factor, and 83 percent in Omaha and 93 percent in Lincoln gave condition of the property as a factor.

Much these same attitudes prevailed with respect to commercial loans. Approximately 33 percent of the Omaha lenders interviewed and 29 percent of those in Lincoln said there were at least some declining neighborhoods in which they were more likely refuse loan requests.

Only five lenders (4 in Omaha and 1 in Lincoln) said location would affect the terms of a loan: the interest rate, down payment and length.

- Many lenders in both Omaha and Lincoln have a policy against making loans below a certain minimum.

Over half of the Omaha lenders (10 of 18) reported they had a minimum loan amount, while 36 percent of the Lincoln lenders (5 of 14) indicated a minimum. This policy was justified primarily on the basis of the fixed cost of servicing a loan regardless of its size. The return on a $20,000 loan, for example, is considerably higher than the return on a $5,000 loan; yet, it costs just as much to service the $5,000 loan as the $20,000 loan.

The impact of this policy falls most heavily on the low-value properties in declining neighborhoods and restricts the availability of mortgage funds to them. Thus, although the policy may be perfectly sound from a business standpoint, it is clearly unsound from the standpoint of the community as a whole and tends to reinforce the cycle of disinvestment and decline found so often in older urban neighborhoods.

- The present policies of financial institutions in both Omaha and Lincoln do not appear to be significant barriers to home improvement loans in the declining neighborhoods of Omaha and Lincoln.

The location of the property, according to the lenders interviewed, is less likely to be a factor in determining whether to make a home improvement loan than a home mortgage loan. None of the lenders indicated that location would affect the terms of home improvement loans.

Age and condition of the property was cited by about half of the lenders as being important considerations in making home improvement loans. The value of the property was also considered to be an important factor. Most lenders were willing to grant 75 to 80 percent of the borrower's equity in the property on a home improvement loan.

- Methods of "redlining" are being practiced by lending institutions in both Omaha and Lincoln.

Approximately 53 percent (9 of 17) of the Omaha lenders interviewed and 83 percent of those in Lincoln identified at least one of eleven common methods of redlining as being practiced in their city. The most common form of redlining in both cities was refusing to make loans below a certain minimum amount. Approximately 41 percent (7 of 17) of the lenders in Omaha and 67 percent of those in Lincoln said this method was being practiced.

The replies obtained from realtors in both Omaha and Lincoln support these findings. Approximately 68 percent (15 of 22) of the Omaha realtors and 75 percent (9 of 12) of the Lincoln realtors said they knew of cases in which a lender rejected a loan application or made the terms unattractive because of the property's location. In addition, about 27 percent of the Omaha realtors and 92 percent of those in Lincoln reported cases in which a loan application was rejected or terms made unattractive because of the property's age. Finally, 73 percent of Omaha's realtors and 17 percent of Lincoln's cited instances of loan rejections based on price (e.g., the price of the property was below the lender's minimum loan amount).

- Federal, state and local governmental programs have crucial roles in efforts to halt the process of neighborhood disinvestment and decline.

The impact of these programs was perhaps best stated by the Comptroller of the Currency in hearings before the House Committee on Banking and Currency, Subcommittee on Financial Institutions Supervision, Regulation and Insurance, July 17, 1975:

> Other factors which are typically present are the sharp decline in public services including sanitation, police and fire protection, and building code enforcement. Normally there is a withdrawal of fire and casualty insurance services. Likewise the policies of governmental agencies with respect to the insuring, guaranteeing, and the secondary market purchases of residential mortgages can affect the trend of deterioration in a particular neighborhood.

The comments of several Omaha and Lincoln financial representatives agree with this statement. Several lenders noted they would provide mortgage money as long as FHA would insure the loans and others said they would provide mortgage money if the Federal National Mortgage Association (FNMA) would provide the secondary market for the mortgages.

Section 223(e) of the National Housing Act provides mortgage insurance in declining urban neighborhoods when conditions of the area are such that property cannot be insured under other sections of the Act, provided it is "reasonably viable and able to support adequate housing for families of lower income levels." There are limits, however, beyond which even this program cannot go. The U.S. Department of Housing and Urban Development has judged one area of Omaha--the area bounded on the north by Locust Street, on the south by Burt Street, on the east by Florence Boulevard, and on the west by 27th Street--as not viable, unable to support adequate housing and, therefore, not eligible even for Section 223(e) insurance.

D. Chapter IV: Non-Metropolitan Communities

- There appears to be an adequate supply of housing investment funds available in the non-metropolitan areas; however, there may be local shortages in some areas.

Almost all respondents in the five non-metropolitan communities included in the survey--Beatrice, Broken Bow, Columbus, Hartington and Lexington--believed housing investment funds were available in adequate supply in their communities. Only one remarked that financial resources were never what they could be. However, State officials interviewed cited several parts of the State where they believe critical shortages of housing investment funds exists. Moreover, many respondents acknowledged that money for housing is not readily available in the smaller neighboring communities and rural areas.

- Availability of financing for business purposes may be inadequate in non-metropolitan communities.

Only two responses obtained in the survey expressed dissatisfaction with the availability of business financing in the communities surveyed. Several, however, indicated that they believed business financing was not adequate in the smaller neighboring communities. The feeling was that most banks in the State's non-metropolitan areas tend to shy away from business investment and concentrate on livestock and other agricultural-related loans.

- No significant discrimination, geographic or otherwise, is apparent within the larger non-metropolitan communities in granting housing and business loans.

However, there were reports of lenders setting higher down payments, higher interest rates and shorter terms on mortgages for older homes than on new homes. Another possible area of concern revealed by the survey was discrimination against newcomers simply on the basis of their being newcomers to the community and not yet established in it.

- There appears to be a definite tendency for financial institutions in the larger communities to discriminate against loan applicants from smaller neighboring communities and rural areas.

This discrimination shows up in higher down payment requirements, higher interest rates and shorter terms for home mortgage, home improvement and business loans made in the smaller communities and rural areas. It shows up also in the practice of financial institutions directing applicants from the smaller communities and rural areas to governmental programs like the Farmers Home Administration and the Federal Land Bank.

As with such practices in declining urban neighborhoods, perfectly sound economic justifications are given: the difficulty of estimating the market value of housing in the smaller communities and rural areas, the difficulty and extra expense of servicing such loans, the lack of a substantial re-sale market, and the lack of adequate water, sanitary sewerage and other public services and facilities in the smaller communities and rural areas. However sound these policies may be from a business standpoint, they tend to reinforce the cycle of disinvestment and decline in the smaller non-metropolitan communities and rural areas.

- Respondents stressed the need for more industry to stimulate housing and business investment in non-metropolitan communities.

More than half of the respondents in the five non-metropolitan communities believed attracting industry was essential to stimulate housing and business investment in their communities and in smaller neighboring communities. Some expressed the opinion that the State could do more to secure industries and businesses for non-metropolitan communities.

The need for incentives to homeowners, renters and builders was also noted by respondents in each of the communities. Among specific suggestions were lower interest rates for the purchase of homes, subsidized interest rates for low- and middle-income housing only, changing Farmers Home Administration and Federal Land Bank requirements to encourage more investment in older homes and modifying Farmers Home Administration limitations on income and loan amounts. One respondent said, "Don't punish via taxes the person who improves his home." Another noted that the Farmers Home Administration could encourage greater investment in smaller neighboring communities by working with savings and loan associations through an agreement to insure and service loans in them.

E. Chapter V: Views on Encouraging Greater Housing and Business Investment

- Lenders, realtors, businessmen and landlords favored tax relief and subsidies and community improvement programs for encouraging greater investment in declining neighborhoods. Government officials tended to stress tax relief and subsidies.

Asked for specific suggestions on how greater housing and business investment could be encouraged in declining neighborhoods, these representatives of the private sector cited most often investment incentives (tax deferments or credits, low interest loans, subsidizing of investors, funding pools for high-risk loans, etc.); and community improvement programs (neighborhood rehabilitation and renovation, urban renewal, housing and credit counseling, etc.). The responses, moreover, were remarkably consistent between Omaha and Lincoln. Overall, 48 percent of the Omaha respondents and 52 percent of the Lincoln respondents cited one or the other of these factors. Omahans, however, were more likely to stress neighborhood rehabilitation while Lincoln respondents were more likely to stress tax relief and subsidies.

- Lenders in Omaha and Lincoln favored faster, cheaper mortgage foreclosures, homeowner counseling, demolition of deteriorated properties and property tax abatement as strategies for increasing urban lending.

Omaha lenders favored these strategies by 59 percent or greater. With the exception of property demolition, the same strategies were most favored in Lincoln, but by lesser margins. The difference in the response rates probably results from the belief of several Lincoln respondents that Lincoln has no serious problem with housing and business investment.

Lincoln lenders favored governmental job training programs equally with faster, cheaper mortgage foreclosures, homeowner counseling and property tax abatement, and favored demolition of deteriorated properties fourth (40 percent). Omaha lenders, on the other hand, favored governmental job training programs next to last (27 percent). This difference in response rates, probably, is because Omaha is more extensively involved in job training programs.

- Lenders believed a greater "pride of ownership" and more home maintenance is needed on the part of homeowners and landlords.

Approximately 68 percent of the Omaha lenders interviewed and 47 percent of the Lincoln lenders suggested a campaign of homeowner counseling services to educated homeowners and landlords in declining urban neighborhoods to the advantages of proper home maintenance and the availability of loan funds for this purpose. (Many stated, however, that these services should be provided by non-governmental agencies.)

- Realtors most often cited deterioration and declining property values as barriers to housing and business investment in declining neighborhoods.

Over one-third of the Omaha realtors interviewed and more than 40 percent of the Lincoln realtors believed the conditions of deterioration and declining property values within the declining neighborhood were in themselves major barriers to housing and business investment. This view conforms to the studies cited in Chapter I, A REVIEW OF THE LITERATURE, that older neighborhoods and communities face a self-reinforcing cycle of decline which discourages investment and which, in turn, accelerates the rate of decline.

- Government officials believed county tax assessment practices and the deterioration of facilities and services in older neighborhoods and communities constitute major barriers on the local governmental level to housing and business investment.

More than half of the responses (12 of 21) regarding local governmental barriers to housing and business investment cited these two factors. In addition, restrictive, unreasonable or non-existent zoning, building, mobile home and similar codes, and poor codes enforcement, were cited by three of the government officials interviewed as being barriers. Lack of community water and sewerage systems were identified by two officials as barriers.

- The property tax laws were identified by government officials as barriers at the State governmental level to housing and business investment.

Four government officials contended that the State's present tax laws penalize those who improve their properties. The owners of older property, particularly those with low incomes, must not only assume the cost of improvements but are then faced with higher assessments and, hence, higher taxes.

Present State legislation for the public acquisition of tax delinquent property and the statutory prohibition against the use of public funds to rehabilitate private structures were also cited by three officials each as hindering housing and business investment.

- Officials cited restrictive, inflexible policies at the Federal level as hampering housing and business investment.

Federal environmental requirements were mentioned as adding to housing costs. The housing programs of the Department of Housing and Urban Development, it was said, are designed for big cities and are not adaptable to the needs of non-metropolitan communities. Minimum income requirements for FHA mortgage insurance, for example, disqualifies many rural and small-town residents.

Inconsistent Federal policies and the lack of stability in Federal policies were also identified as constituting barriers to housing and business investment.

- Officials believed improvements in public services and facilities are essential--"not a guarantee, but a necessary condition"--to stimulating more housing and business investment.

A State official cautioned, however, that massive public investments would be needed in some areas to have significant effect.

There was strong consensus among the officials that vigorous enforcement of building, plumbing, heating, electrical and housing codes can encourage investment if coupled with programs to improve public services and facilities and to provide financing of needed improvements. However, one official cautioned that codes should be applied flexibly to older homes.

Rigorous codes enforcement may actually deter investment by requiring improvements out of proportion to a structure's value.

Most of the officials agreed that zoning was probably the weakest factor in the equation for encouraging housing and business investment. They also agreed, however, that zoning policies and practices which benefit individuals at the long-run expense of the community at large serve to discourage investment.

The officials endorsed the concept of an "official, community-wide neighborhood improvement policy and implementation program." Such a program, they believed, provides lenders, owners and residents assurance of the local government's long-term commitment to improvement.

- Officials urged local governments to adopt better zoning and land subdivision controls and improve their enforcement as means to encourage housing and business investment.

The largest proportion of the suggestions by officials pertain to actions by local governments. Seven of the 17 officials interviewed urged adoption of better zoning and subdivision land use controls and improved enforcement of such controls. Four officials also recommended the adoption and implementation of community-wide growth policies for anticipating and meeting future needs.

Three officials suggested local and State Human Relations Boards be used to mediate situations where applicants believe lenders have unjustly refused their loan applications. Three others suggested that more local leadership be encouraged through such devices as neighborhood and community improvement associations.

- Eight officials suggested changes in the State's property tax laws to encourage housing and business investment.

Suggested changes would authorize local governments to grant tax deferments or credits, to move to a site-value taxation basis and to freeze assessment on new developments in declining urban neighborhoods and non-metropolitan communities. A related suggestion was to permit local governments to rely more on sales and income taxes and less on property taxes for revenue.

- Three officials endorsed the concept of a State Housing Authority and the formulation of a State housing policy.

These actions, it was believed, should be coupled with a State Financial commitment to housing. It was stressed that a State Housing Authority would particularly benefit low-income persons in smaller non-metropolitan communities.

Two officials expressed the opinion that many state programs tend to favor suburban areas and suggested that State aid focus more on improving facilities and services in the older urban neighborhoods and non-metropolitan communities.

- Neither lenders nor local government officials favored requiring disclosure of geographic lending and deposit information.

The financial institution representatives and local government officials were asked whether they would favor laws--as adopted by some cities and states--requiring financial institutions bidding for government deposits to disclose information on the geographic pattern and distribution of their loans and depositors. This issue has been rendered largely moot since these surveys were made by passage of the Federal Home Mortgage Disclosure Act in December, 1975. It is instructive to note, however, that most of the lenders and local government officials strongly opposed this requirement. It is also instructive to note that those who did favor it believed it would have definite value in publicizing situations and making lenders more aware of their responsibilities to their depositors. As one lender replied, "If you are getting deposits from a particular area, you should expect to put money back into it."

- Lenders and local government officials did not favor establishment of lender-government official committees to review claims of unfair or unreasonable denial of mortgages.

Both lenders and local governmental officials were asked whether they would favor establishment of joint committees of lenders and government officials with the authority to place loans among member firms in cases where the committee substantiates claims of unfair treatment. Such committees have been established by some cities, as pointed out in Chapter I, A REVIEW OF THE LITERATURE.

Most of the lenders and local officials were opposed. One lender summed up the feelings of many by saying, "We are not in favor of any authority which might have the effect of thwarting the credit judgment of loan officers." Two officials thought the State and local Human Rights Commissions function in the same vein so there is no need for such committees. Further, a consortium like Omaha's Public Interest Lenders Agency, in which financial institutions establish a pool of investment capital for high-risk loans, was generally believed to be a much more promising approach.

Chapter VII

RECOMMENDATIONS

In the opinion of the CAUR staff, three broadly different but related approaches for dealing with the problems of housing and business investment in declining urban neighborhoods and in non-metropolitan communities emerge from this study. The first is regulatory in nature and has as its objective monitoring lending practices in the allocation of loan funds to declining neighborhoods and non-metropolitan communities. Examples of this approach are the Federal Home Mortgage Disclosure Act of 1975 and similar legislation enacted by several states and cities as reported in Chapter I. The second approach involves offering incentives to lending institutions, homeowners and developers which will make loans in declining urban neighborhoods and non-metropolitan communities more attractive. The third approach is to eliminate--or at least lessen--existing environmental factors, legal restraints and administrative practices which may be discouraging or hindering investment in declining urban neighborhoods and non-metropolitan communities.

Any program to alleviate the problems of housing and business investment in these areas should, in the CAUR staff's opinion, include a balance of all three of these approaches. To rely solely on regulatory measures, for example, would place the entire burden of dealing with the problem on the lending institutions and would be destructive of their obligation to secure a reasonable return on the deposits of their depositors. On the other hand, reliance cannot be placed solely on incentives, either. One of the things revealed by this study was that some existing incentive programs, such as those of the Small Business Administration, are grossly under-utilized by lending institutions simply through inertia or other reasons not necessarily related to the intrinsic worth of the incentive programs themselves. Moreover, a program which did not include concerted State and local governmental action to eliminate existing environmental, legal and administrative barriers would face a severe handicap in trying to achieve its objectives.

The following recommendations by the CAUR staff attempt to present such a balanced program for action both at the State governmental level and at the local governmental level in Nebraska. Federal policies, requirements and regulations must be taken as given, in the CAUR staff's opinion, except in so far as it might be possible to press for desirable changes through Nebraska's Congressional delegation and through direct channels to the relevant Federal departments and agencies.

These recommendations are presented to the Urban Affairs Committee, and through it to the Nebraska Legislature, with the hope and intent they will provide a point of reference for the Committee and the Legislature in their deliberations on legislative measures to alleviate housing and business investment problems in the State's declining urban neighborhoods and non-metropolitan communities.

A. Regulatory Measures

Recommendation 1

> Enact legislation supplementing the Federal Home Mortgage Disclosure Act of 1975 by requiring data on the geographic location of depositors, the number and characteristics of persons rejected for loans and the reasons for rejecting the loans.

The "Home Mortgage Disclosure Act of 1975" now requires each depository institution which has a home office or branch office located within a Standard Metropolitan Statistical Area to compile and make available to the public the number and total dollar amount of mortgage loans by census tracts or ZIP codes which were originated or purchased by that institution during each fiscal year. The information is to be further itemized to disclose the number and dollar amount of (1) mortgage loans insured under Title II of the National Housing Act or under Title V of the Housing Act of 1949; (2) mortgage loans made to mortgagees who did not, at the time of execution of the mortgage, intend to reside in the property securing the mortgage loan and (3) home improvement loans.

The law applies to any commercial bank, savings bank, savings and loan association, building and loan association, or homestead association or credit union which makes Federally related mortgage loans as determined by the Board of Governors of the Federal Reserve System. The depository institution must, however, have total assets of more than $10 million for the Title to apply.

The Federal legislation, by making the lending patterns of financial institutions open to the public, is intended to generate public pressure for lenders to be absolutely certain of their reasons for loan rejections, or face potential legislation which will be more restrictive. If anything substantive is to be accomplished with data from lenders, however, the CAUR staff believes more is required than the Federal legislation provides for. Specifically, data should be made available on the geographic location of depositors, the number and characteristics of persons rejected for loans and the reasons why the loans were rejected. The data on depositors would allow a determination of whether financial institutions are serving those who supply it with funds. But this must be backed up by data on loan rejections. One of the common replies to a low level of mortgage lending in a given area is that there are few requests for such loans. Data on loan rejections would shed light on the validity of this response.

Recommendation 2

> The State should use its capital reserve deposits as levers to require greater investment in declining urban neighborhoods and non-metropolitan communities. Authority to use this same procedure should be extended to local governments through the enactment of enabling legislation.

This technique would require financial institutions to provide reasonable amounts of mortgage loans in the older declining areas of their communities and in smaller surrounding rural communities to be eligible depositories for State funds. An institution's deposits from a given geographic area could be compared with the number and dollar amounts of mortgage loans made in the same area. The number of loan rejections in a given area, as well as the reasons for those rejections, could also be scrutinized to evaluate the institution's willingness to make loans there. Financial institutions these investigations show to be clearly discriminating against certain neighborhoods or communities in making mortgage loans would not be eligible depositories for State funds.

The Legislature should consider enacting enabling legislation authorizing local governments to use their capital reserve deposits in the same manner. To be effective, however, this authority would have to cover deposits of school districts and other special taxing authorities.

B. Incentive Measures

Recommendation 3

> Encourage the formation of capital risk pools like that of the Greater Omaha Community Development and Housing Corporation and consortiums of financial institutions like that of the Private Interest Lenders Agency by offering State participation.

The Greater Omaha Corporation and the Private Interest Lenders Agency offer a fresh approach from the private sector to the problem of neighborhood deterioration and, in particular, to the funding of high risk investment projects in declining or potentially declining urban neighborhoods in Omaha.

The Greater Omaha Corporation is a private nonprofit agency currently funded by a $52,000 Federal grant under the Housing and Community Development Act. It is raising a revolving $600,000 pool of risk capital from individuals, corporations and foundations. This money will be used primarily to provide a 25 percent loan guarantee for redevelopment projects and property improvements which do not qualify for private loans, Federal loan programs or Federal grants. It can also be used for direct loans.

Projects deemed to have a favorable social impact on the neighborhood will be recommended for funding through the Public Interest Lenders Agency. If the members of the Agency approve the loan request, a member will make the loan and all other members will be assigned a portion of the loan as their share of the risk. The Greater Omaha Corporation plays a role by securing 25 percent of the loan.

Currently the State is not involved in the Greater Omaha Corporation, and while the Corporation has already attracted a sizeable pool of risk capital, the injection of State funds would expand the capacity of the Greater Omaha Corporation and the Public Interest Lenders Agency to deal with the problem of neighborhood improvement.

These pools are valuable preventive tools for arresting and reversing declining or potentially declining neighborhoods and communities. State participation is particularly needed to encourage their formation to serve the smaller non-metropolitan communities where borrowers often have great difficulty obtaining housing and business investment funds. Lenders are hesitant to provide funds in these communities for fear that a re-sale market for the investment either does not or will not exist.

Recommendation 4

> Review existing legislation and amend as necessary to permit the use of State and local governmental capital reserves to purchase the obligations of financial institutions in areas short of capital, provided those institutions agree to use this capital for housing and business investment in the area.

In the opinion of the CAUR staff, one of the quickest ways to pump capital into capital-deficient areas would be for the State to purchase the existing obligations of financial institutions serving those areas, thus increasing their free capital reserves which could be used to make housing and business investment loans. An additional advantage is that this could be done at no additional cost to the State. The State now has an investment program for its capital reserves; all that is necessary is a change in the emphasis of that program.

This same authority should, of course, be extended to local governments in regard to their capital reserve investment programs.

Recommendation 5

> Enact legislation providing subsidies to lenders to equalize the costs of orginating and servicing loans in declining urban neighborhoods and non-metropolitan communities with the costs of other loans--such as those in new suburban areas.

The study revealed that an important reason lenders are reluctant to make loans in declining urban neighborhoods and non-metropolitan communities--especially the smaller ones--is the higher costs associated with such loans in relation to the rate of return. In declining urban neighborhoods, for example, home mortgage loans tend to be substantially smaller than those in new suburban areas; hence, the rate of return is less. Yet, it costs just as much to orginate and service such loans as it does larger loans in suburban areas. In the smaller non-metropolitan communities, not only do the loans tend to be smaller but they are usually scattered at some distance from the lending institution, which increases still further the relative cost of originating and servicing them.

The CAUR staff believes a State subsidy to off-set these higher origination and servicing costs would induce lending institutions to substantially increase their lending activities in declining urban neighborhoods and smaller non-metropolitan communities.

Recommendation 6

> Enact legislation and/or initiate a constitutional amendment as necessary to remove or ease the tax penalty on owners of deteriorated properties who make needed improvements. The major options are:
>
> - Authorize local governments to shift to a site-value tax basis.
> - Authorize local governments to grant property tax deferments for improvements to deteriorated properties.
> - Authorize local governments to freeze assessments on new developments in declining neighborhoods and non-metropolitan communities for a specific number of years.

Property taxes are the principal source of revenue for local governments in Nebraska and throughout the country. There is strong evidence that present property tax structure in Nebraska and elsewhere penalizes owners of older property who make improvements to that property; thus, property taxes act to discourage owners from making needed repairs and improvements.

In a 1973 study conducted as part of the Missouri Riverfront Development Project, the CAUR staff recommended that land be made the sole base for property tax. This is the essential feature of site-value taxation. Briefly, implications of shifting the tax burden from improvements to land are: (1) investment in improvements become more attractive, (2) owners of deteriorating and obsolete buildings are not penalized by higher taxes for making improvements, (3) the heavier tax on land forces owners to make more effective use of land, and (4) a more intensive use of land is encouraged, coupled with a disincentive for urban sprawl.

A shift to site-value taxation would render the second and third of the above options unnecessary. Their essential effects would be accomplished automatically under site-value taxation. Without authorization for site-value taxation, however, these options would provide significant encouragements, in CAUR staff opinion, to investment in declining urban neighborhooods and non-metropolitan communities.

Recommendation 7

> Permit credits against State income taxes for improvements to properties in declining urban neighborhoods and non-metropolitan communities.

Such a credit would provide an additional incentive for investment in declining urban neighborhoods and non-metropolitan communities even if site-value taxation or the other options in Recommendation 6 above were adopted.

Recommendation 8

> Enact legislation authorizing local governments and taxing jurisdictions to rely more on sales and income taxes and less on property taxes for revenue.

Older properties, which are those most likely in need of major repairs and improvements, are also more likely to be owned by low-income persons. Low-income persons, by definition, are least able to make needed repairs and improvements to their property. A study of 1971 tax data by the Advisory Commission on Intergovernmental Relations[68] ranked Nebraska as having highest property taxes in the nation. Anything, therefore, which lightens the tax burden on real property diminishes the degree to which property taxes discourage expenditures for repairs and improvements in declining urban neighborhoods and non-metropolitan communities.

Recommendation 9

> Enact legislation authorizing local governments to establish special benefit business improvement districts.

The purpose of this legislation would be to permit the businessmen in commercial districts to jointly undertake and finance improvement projects of all types--parking facilities, pedestrian malls, lighting, benches, rest rooms, fountains, etc.--benefiting the district as a whole. Such legislation, in the CAUR staff's opinion, would permit businessmen themselves to take the initiative in halting and reversing the decline of older business districts in urban neighborhoods and non-metropolitan communities.

Proposed legislation--LB 84--has been introduced to permit the establishment of such districts in primary class cities (Lincoln), reflecting the findings of this study that Lincoln businessmen are willing to take the burden of improvement on themselves. The CAUR staff believes this type of legislation should be extended to all classes of local governments and to all types and sizes of commercial districts.

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[68] Federal, State and Local Finances - Significant Features of Fiscal Federalism (Washington, D.C.: Advisory Commission on Governmental Relations, 1974), Table 103.

Recommendation 10

> The State government should strengthen its involvement in and commitment to housing and community development matters. Specifically, the State should:
>
> - Intensify current efforts toward a State-wide housing and community development policy.
> - Promulgate uniform State-wide building, plumbing, heating and electrical codes.
> - Establish a State Housing and Community Development Department or Agency (or broaden the authority of an existing department or agency) to carry out that increased involvement and commitment.
> - Commit the financial resources necessary to implement the actions called for by other recommendations presented in this Chapter.

The State Office of Planning and Programming in the Overall Program Design for its Comprehensive Planning Program has recognized that marketing constraints have restricted the private building industry to serving one or at most only a few local jurisdictions. The housing needs of each jurisdiction, however, can only be met without regard to such boundaries. "It therefore follows that there is a need for the State to become an active partner in the joint efforts to solve housing problems in Nebraska."[69]

CAUR's study, moreover, clearly reveals that housing quality and efforts to improve housing quality depend very much on the quality of community services and facilities and the other factors included under the general term "community development." The CAUR staff, therefore, believes these activities should be brought into closer organizational relationship within the State government by establishing a State Housing and Community Development or Agency as has been done by the Federal government and several other states, or at the very least by substantially broadening the authority of the Nebraska Department of Economic Development to deal with housing and community development matters. This broadened authority is needed particularly to provide, or to supervise the provision of, the financial and other incentives proposed by other recommendations in this Chapter.

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[69] Nebraska State Office of Planning and Programming, Overall Program Design, July 1, 1975 - June 30, 1978, (May 30, 1975), Section 120.20.

At present, the State government's principal involvement and commitment to housing and community development is in developing and maintaining a State-wide housing inventory, providing technical assistance and training primarily in the area of low-rent public housing and coordinating the housing-related activities of State departments and agencies through the State Housing Advisory Council. The CAUR staff believes these efforts need to be substantially strengthened and broadened if significant progress is to be made toward meeting Nebraska's housing needs.

C. Measures to Eliminate Environmental, Legal and Administrative Barriers

Recommendation 11

> Encourage local governments to adopt improved land use controls and modern construction codes, to improve their administration of such controls and codes, and to adopt and implement community-wide growth policies.

Respondents to CAUR's survey reported a widespread lack of zoning and land subdivision controls and construction codes among the State's non-metropolitan communities particularly and, where communities have adopted them, many instances controls and codes are outdated and poorly enforced. There was also strong feeling that administration of these controls and codes should be guided by sound and clearly expressed community-wide growth policies.

There are three principal ways in which the State government could foster improvement in these matters. The first is to increase the level of technical assistance to non-metropolitan communities now being provided by the State Office of Planning and Programming, the Department of Economic Development and other State departments and agencies. The second is to promulgate State-wide building, plumbing, heating and electrical codes similar to State-wide mobile home and modular home codes. The third way is to offer special bonuses on key State aid programs--such as the Highway Allocation Fund, the Waste Water Treatment Facilities Construction program and the Land and Water Conservation Fund for parks and other recreational facilities--to communities who meet satisfactory standards with respect to the adoption and implementation of such controls, codes and growth policies.

Existing legislation should be reviewed to determine the need for changes in order to implement these proposals.

Recommendation 12

> Review existing legislation and amend as necessary to insure that State and local public services are provided equally to declining urban neighborhoods and to non-metropolitan communities as to "affluent" suburban areas.

The improvement of public services and facilities in declining urban neighborhoods was the need cited second most often by Omaha and Lincoln respondents to CAUR's survey and fourth most often by respondents in the non-metropolitan communities. In addition, several governmental officials specifically commented on inequitable levels of both State and local public services and facilities in declining urban neighborhoods and non-metropolitan communities compared with new suburban areas. These findings are consistent with research conducted in other parts of the country as reported in Chapter I. And, as also reported in Chapter I, decreasing levels of public services and diminished maintenance of public facilities are often identified as initiating the decline of older neighborhoods and communities. In the CAUR staff's opinion, therefore, it is imperative that appropriate action be taken--starting with legislation--to insure that State and local public services are provided equally in all neighborhoods and communities regardless of their relative affluence.

Recommendation 13

> Review existing community development and urban renewal enabling legislation for all classes of local government to make them more flexible and more useful tools for community improvement.

In CAUR's survey, strong, effective community improvement programs, including urban renewal, were emphasized by respondents in both public and private sectors. Two restrictions in the present enabling legislation for these activities were singled out as especially needing correction. The first is the prohibition against using public funds (Federal Community Development Block Grant funds as well as State and local public funds) to rehabilitate privately-owned structures. The second is the statutory requirement for a voter referendum on use of the urban renewal power.

Both of these restrictions severely limit the usefulness of these tools to the State's local governments--large and small--in carrying out effective community improvement programs. They, and other restrictions in the present enabling legislation, should be reviewed to determine the extent to which they are really necessary to protect the interest of the general public.

Recommendation 14

> Strengthen existing legislation relating to the improvement to property tax assessment procedures by county assessors.

Government officials in CAUR's survey identified two current tax assessment practices they believed to be hampering investment, particularly in declining urban neighborhoods. The first is the failure of county assessors to adjust tax assessments on a regular, timely basis. Consequently, property in new suburban areas where property values are rising tends to become under-assessed over time and property in older neighborhoods where property values are falling tends to become over-assessed. The second is the practice of adding the value of improvements to the existing assessment of the property. In older areas where property values are declining this practice acts to increase inequitably the property tax burden on the person who improves his property.

The CAUR staff agrees that these practices increase the tax burden on the homeowner, landlord and businessman in declining urban neighborhoods and diminish their ability to pay for needed improvement. Thus, they constitute barriers or impediments to investment and should be eliminated.

Recommendation 15

> Review existing legislation for the public acquisition of tax delinquent properties with the view toward further simplifying and speeding up the process.

Three government officials in CAUR's survey contended that, even though recent legislation reduced the length of time for acquiring tax delinquent property from seven to five years, the process is still too complicated, expensive and time consuming. Another part of the problem as they see it is the lack of a provision for other local taxing authorities to relinquish their tax claims on the property so the general local government can obtain a clear title.

Tax delinquent property not only tends to fall into disrepair and to exert a blighting influence on surrounding properties, it robs the local government and other taxing authorities of needed revenues. Hence, any legislative changes which can speed up the process of acquiring such properties and return them to productive tax-paying use without violating the rights of the owners are most desirable.

Recommendation 16

> Review existing legislation and revise as necessary to permit quicker, cheaper foreclosure procedures, particularly on abandoned or abused properties.

CAUR's survey found the higher rates of abandonment and abuse of properties in the declining urban neighborhoods of Omaha and Lincoln to be a major constraint to increased lending in those areas. Lenders fear that repayment of such loans will be slow or may cease entirely. In that event, the time and costs associated with foreclosure add considerably to the loss on the loan. Lenders in Omaha and Lincoln indicated it can take up to a year to complete foreclosure procedures on properties abandoned or abused or on which payments have stopped. As reported in Chapter V of this study, the majority of the lenders interviewed believed faster and cheaper mortgage foreclosure procedures would increase lending in declining urban neighborhoods.

Recommendation 17

> Amend existing legislation to authorize all classes of local government to permit up to 20 years to repay special assessments.

It is the practice in both Omaha and Lincoln, and in many other local governments throughout the State, to finance a major portion of the cost of streets, street lighting and similar community improvement projects with special assessments against the abutting, or benefited, properties. At present only the City of Lincoln has the statutory authority to give property owners up to 20 years for the repayment of such special assessments; Omaha and all other classes of local governments are limited to ten years.

Special assessments for community improvements in declining urban neighborhoods and non-metropolitan areas, however much they may be needed, constitute a substantial increased tax burden on the predominantly low-income property owners in those areas. Extending the authority to all classes of local governments to permit up to 20 years for the repayment of such special assessments would substantially decrease the annual payments of property owners. This would, in the opinion of the CAUR staff, diminish opposition to such special assessments even though the total amount of interest the property owner has to pay in the long-run would be higher.

Appendix A

METHODOLOGY

Appendix A.

METHODOLOGY

A. Declining Neighborhoods in Metropolitan Cities

To compile the data for the study of housing and business investment in declining neighborhoods in the metropolitan cities of Omaha and Lincoln, a total of 876 personal and telephone interviews were conducted by the CAUR staff. The elementary sampling units consisted of six components for each city; namely householders (includes homeowners and renters), landlords, businessmen, realtors, lending institutions and government officials. Since each of the components represented a separate interest group, each required a different questionnaire. Similarly, since the sizes of the populations and the ease of access to the populations differed among the six components, different sampling procedures and interviewing techniques for the components were necessary. These are described in the following sections.

Householders (Homeowners and Renters)

Telephone interviews were used to solicit the perceptions of 476 householders in the declining neighborhoods of Omaha (424) and Lincoln (52). Based on 1970 Census population figures for the neighborhoods, the sample sizes will yield a 90 percent confidence level with approximately a three percent margin of error for each of the samples.

In Omaha, the eight areas delineated as eligible for HUD Community Development funds were used as the "universe" for the survey of householders. These areas are shown on Map 1 in the INTRODUCTION of this report. In Lincoln, the four census tracts (1, 4, 7, 31) in which most of the first year HUD Community Development funds were committed were used as the "universe" for the survey of households. Of the $486,000 in first year funds, about $372,000 went to census tract 4 (the Clinton Neighborhood). These four census tracts are shown on Map 2 in the INTRODUCTION.

Households contacted for interviews were randomly selected by a two-stage probability sampling method. The first-stage was to select sample blocks, or the primary sampling units. Data from the 1970 Census of Housing, Block Statistics publications for Omaha and Lincoln provided the sampling framework; probability sampling proportionate to the number of housing units on each block was used to carry out the first stage of the sample. This involved constructing a list of all blocks in the "universe" including the number of housing units for each of the blocks. A sampling interval was then determined based on four sample households per block. The list of blocks was randomly entered, with the first sample block being the one whose cumulant exceeded or equaled the random start number. The second sample block was obtained by adding the sampling interval to the random start number. This process was repeated until all sample blocks were selected (107 in Omaha and 12 in Lincoln).

The second stage of the sampling procedure was the selection of sample households within the sample blocks. The Omaha and Lincoln City Directories were used to establish a complete list of all households for each selected sample block. A random numbers table was used to select four sample households per block. When possible, one household from each face of the sample block was selected. The household immediately below each sample household on the list was also selected as a "reserve," to be contacted only if the initial household contact resulted in a refusal or disconnected telephone.

Landlords

Telephone interviews were conducted with 50 Omaha landlords who owned property in the declining neighborhoods (see Map 1) and 22 Lincoln landlords who owned property in the declining neighborhoods (see Map 2). Based on the 1970 Census housing figures for the number of rental units in the neighborhoods and an average holding of five units per landlord (derived from sample), the sample sizes are large enough to yield a 90 percent confidence level with approximately a five percent margin of error for each sample.

Since a complete list of landlords owning property in the declining neighborhoods was not available, it was necessary to sample landlords through the renters. A two-stage sampling procedure was employed for the selection of primary and elementary sampling units. In the first stage 25 sample blocks in Omaha and ten sample blocks in Lincoln were randomly selected proportionate to the number of renters in all of the blocks. The procedure for completing this stage was similar to that used for the first stage of the household sample.

The second-stage of the sampling procedure was the selection of sample landlords, the elementary sampling unit. This was accomplished by:

(1) Establishing a complete list of renter addresses for each of the sample blocks from the 1975 R. L. Polk Directories for Omaha and Lincoln.

(2) Randomly selecting two renter addresses for each block. In addition, two "reserve" addresses for each block were selected.

(3) Determining the owner of the property in the sample from the real property files maintained by the Cities of Lincoln and Omaha.

Businessmen

Telephone interviews were conducted with 174 businessmen in Omaha and 53 businessmen in Lincoln. All were located in the declining neighborhoods (see Maps 1 and 2). As a percentage of the total these sample sizes were somewhat larger than the samples for homeowners and renters, but were necessary because the characteristics of the businessmen had larger variances than those of the homeowners and renters. The sample sizes are large enough to yield a 90 percent confidence level with approximately a five percent margin of error for each of the samples.

Simple probability sampling was utilized to draw the samples in Omaha and Lincoln. A list of Omaha businesses by zip code was obtained from the Greater Omaha Chamber of Commerce, while it was necessary to construct a list of businesses in the declining neighborhoods of Lincoln. The latter list was obtained from Polk's Lincoln City Directory.

Financial Institutions, Government Officials and Realtors

The CAUR staff conducted personal interviews with representatives of 39 financial institutions in Omaha (24) and Lincoln (15). The institutions included in the sample were drawn from a listing of major mortgagees in the two cities obtained from Fidelity National Title Insurance Company. The institutions for which interviews were completed accounted for about 60 percent of the total 1974 mortgages in Douglas County and 75 percent of the total 1974 mortgages in Lancaster County.

Personal interviews with representatives of 17 local, State and Federal departments and agencies were conducted by the CAUR staff. Only representatives from departments or agencies involved with and knowledgeable about housing and business investment practices and problems were contacted. All representatives were in a position to speak about their department or agency policies.

On the Federal level, officials from the Veterans Administration, Farmers Home Administration and Housing and Urban Development were interviewed. On the State level, the interviews were with officials from the Departments of Banking, Revenue and Economic Development and the Office of Planning and Programming. In Omaha, the interviews were with representatives of the Department of City Planning, Housing and Community Development and Human Relations; the Omaha Housing Authority and the Metropolitan Area Planning Agency. In Lincoln, officials were interviewed from the Departments of Finance, Urban Development and Building Inspection; the Lincoln Housing Authority and the City-County Planning Commission.

The CAUR staff also conducted personal interviews with 34 realtors in Omaha (22) and Lincoln (12). The realtors interviewed were selected from the official membership lists of the Omaha and Lincoln Boards of Realtors and, consequently, represent those active or knowledgeable about the real estate market in the two cities.

B. Non-Metropolitan Communities

Personal interviews with 38 government officials, prominent residents and businessmen and representatives of financial institutions in the five non-metropolitan communities of Beatrice, Broken Bow, Columbus, Hartington and Lexington were completed by the CAUR staff.

The communities in which interviews were conducted were selected in consultation with representatives of the Nebraska Department of Economic Development (DED). DED has worked with each of the communities and supplied the CAUR staff a list of names of government officials, residents and businessmen and financial institution representatives in each of the communities. It should be noted that the interviews do not represent a random sample of persons in the communities; instead they represent the perceptions of persons who have shown an express interest in and knowledge of their respective communities.

Interviewing and Quality Control

Most of the interviews of householders, landlords and businessmen were conducted over the telephone by interviewers at the CAUR. They were conducted during the daytime and evenings on weekends as well as weekdays. One call-back was insured usually through advance appointments. Only those persons who were the head of the household or spouses of the household head were eligible for the householder interviews. Personal interviews were conducted with those who did not have telephones. It was necessary to conduct personal interviews with approximately 11 percent of the households. In the landlord interviews only those persons actually owning the property were interviewed. In the business interviews only the owners or managers of the businesses were interviewed.

All financial institution interviews were with persons in a position to speak about their institutional policies, typically either the President or an Executive Vice President. While most of the data was obtained during the initial interview period several chose to spend some time with the questionnaire and fill it out at their convenience. In these cases, all in Omaha, the interviewers (CAUR staff) returned at a later date to pick up the questionnaires.

The interviews of government officials, realtors and non-metropolitan community representatives were also personal interviews. Appointments for the interviews were made in advance and in most cases the interviews took place at the respondent's office or place of business. All of the interviews were conducted by CAUR staff and each generally took from one-half to one hour to complete.

Appendix B

QUESTIONNAIRES

HOUSEHOLD QUESTIONNAIRE

(Homeowners & Renters)

1. Do you own or rent your house?

   1. Own ______ (Go to Question 2)
   2. Rent______ (Go to Question 4)

2. How did you finance your house?

   1. Paid cash ______ 2. FHA loan ______
   3. VA loan ______ 4. S & L Assn. ______
   5. Bank ______ (Was it a conventional loan?) a. Yes ____ b. No ____
   6. Don't know ______ 7. Others ______________ c. Don't know ______

3. In the past two years, have you tried to get a loan either to improve this property or to buy another home in your neighborhood?

   1. Yes ______ a. Property improvement? ______ b. Buy home ____(Go to Question 5)
   2. No ______(Go to Question 7)

4. In the last two years, have you tried to get a loan from a bank or savings and loan association to buy a home in your neighborhood?

   1. Yes ______(Go to Question 5)
   2. No ______(Go to Question 7b)

5. Did any bank or savings and loan association turn you down in your loan application?

   1. Yes ______(Go to Question 5a and 5b) 2. No ______(Go to Question 6)

5a. What were the reasons given?

   a. High risk neighborhood ______ d. Deteriorated area ______
   b. Poor credit rating ______ e. Don't know ______
   c. Others ________________________

5b. Were you a depositor at the bank or savings and loan association?

   a. Yes ______
   b. No ______

6 Did any bank or savings and loan association offer terms that were not acceptable to you?

   1. Yes ______(Go to Question 6a) 2. No ______(Go to Question 7)

6a. What were these terms?

   a. Interest rate was too high ______
   b. Downpayment was excessive ______
   c. Length or repayment period was too short ______
   d. Monthly payment was too high ______
   e. Others ______________________________

   (For homeowners, go to Question 7a, Renters, go to Question 7b.)

7a. In the next two years, would you like to apply for a loan either for buying a home or improving your property?

   1. Yes ______ (a. Buy home? ______ b. Improve property? ______)

(Homeowners & Renters)

A. IF YES and BUY HOME:
   a. What is the maximum monthly payment you feel you can afford to make? ____________
   b. What is the maximum downpayment you feel you could afford? ____________

B. IF YES AND FOR PROPERTY IMPROVEMENT:
   c. How much money would you need for a loan? ____________

2. No _____

7b. In the next two years, would you like to apply for a loan for buying a home?

1. Yes _____ a. What is the maximum monthly payment you feel you can afford to make? ____________
   b. What is the maximum downpayment you feel you could afford? ____________

2. No _____

8. In the last two years, have you applied for property insurance?

1. Yes _____(Go to Question 8a) 2. No _____(Go to Question 9)

8a. Have you been rejected for the property insurance?

1. Yes _____Why were you rejected?
   a. High risk neighborhood _____
   b. Deteriorated area _____
   c. Others _____
   d. Don't know _____

2. No _____

Just for classification purposes:

9. What is your yearly income?

1. Under $5,000 _____
2. $5,000 to $10,000 _____
3. $10,000 to $15,000 _____
4. Over $15,000 _____

10. Are you:

1. Under 25 years old _____
2. 25 to 45 _____
3. 46 to 65 _____
4. Over 65 _____

11. Regarding your marital status, are you:

1. Single _____
2. Married _____
3. Never married _____
4. Divorced or separated _____
5. Widowed _____
6. Other _____

12. Sex:

1. Male _____
2. Female _____

Phone: ____________

Address: ____________

LANDLORD QUESTIONNAIRE

1. Have you ever tried to arrange financing through a financial institution to purchase property in the area east of 42nd Street and been turned down or offered unacceptable terms? (IF YES, were you turned down or offered unacceptable terms?)

   A. Yes, turned down ______(Go to Q.1a)   C. No______(Go to Q.2)
   B. Yes, unacceptable terms____(Go to Q.1b)

1a. What were the reasons given?

   a. location of property ______
   b. collateral insufficient ______
   c. age of housing units ______
   d. condition of housing units ______
   e. other__________________________

1b. What were the unacceptable terms?

   a. downpayment was too high ______
   b. interest rate was too high ______
   c. excessive collateral was required ______
   d. other__________________________

2. Have you had any problems obtaining financing for improvements for your property located east of 42nd Street? (IF YES, were you turned down or offered unacceptable terms?)

   A. Yes, turned down ______(Go to Q.2a)   C. No______(Go to Q.3)
   B. Yes, unacceptable terms______(Go to Q.2b)

2a. What were the reasons given?

   a. location of property ______
   b. collateral insufficient ______
   c. age of housing units ______
   d. condition of housing units ______
   e. loan request too much considering value of unit ______
   f. other__________________________

2b. What were the unacceptable terms?

   a. downpayment too high ______
   b. interest rate too high ______
   c. excessive collateral required ______
   d. other__________________________

3. Are there any financial institutions that you know of that refuse to provide mortgage funds to certain areas of the city--or that make terms so unattractive as to discourage mortgage activity in parts of the city? (IF YES, do they refuse to provide funds or make terms unattractive?)

   A. Yes, refuse mortgage funds ______(Go to Q.3a)   C. No ______(Go to Q.4)
   B. Yes, unattractive terms ______(Go to Q.3b)

3a. Which areas of the city do they do this in?

   a. East of 42nd St. ______
   b. N.O.C.D. area ______
   c. NW Franklin area ______
   d. East Omaha ______
   e. other__________________________

3b. Why are these areas selected?

   a. because of high risk neighborhood ______
   b. because of deteriorated area ______
   c. other__________________________

(Landlord)

4. In the next two years, would you like to apply for a loan either for improvements or for buying another property?

   A. Yes, for improvement of property_____ (Go to Q. 4a)
   B. Yes, for buying another property_____ (Go to Q. 4a)
   C. No_____ (Go to Q. 5)

4a. If yes, how much money would you need for a loan? $______________

5. What do you think is necessary to encourage more housing investment in the area east of 42nd Street?

   A. Property tax exemption_____
   B. Improved FHA home insurance_____
   C. State regulations on financing institutions_____
   D. HUD's neighborhood rehabilitation program_____
   E. Raising usury ceiling on mortgages_____
   F. Others_____
   G. ________________________

6. Do you own:

   A. Less than five housing units_____
   B. Five to 10 housing units _____
   C. More than 10 housing units_____

7. What is/are the general locations of your properties (for example--24th and Lake?)

   A. Property location:__________________________ Street:______________

BUSINESS QUESTIONNAIRE

1. Do you own or rent your facility?

   1. Own _____ (Go to Question 2)
   2. Rent _____ (Go to Question 4b)

2. How did you arrange financing to purchase your facility?

   1. Bank _____ (Go to Q. 4a)
   2. S & L _____ (Go to Q. 4a)
   3. S.B.A._____ (Go to Q. 3)
   4. Private_____(Go to Q. 3)
   5. Other _____(Go to Q. 3)

3. Did you attempt to arrange financing through a bank or savings and loan association?

   1. Yes_____ 2. No_____

4a. In the past two years, have you applied for a loan from any financial institution for the expansion, improvement, or relocation of your business?

   1. Yes_____ A. For the purpose of: a. expansion _____ b. improvement _____ c. relocation _____ d. other _____
   2. No _____

4b. In the past two years have you tried to get a loan from a bank or savings and loan company to purchase your facility?

   1. Yes _____ (Go to Question 5)
   2. No _____ (Go to Question 7)

5. Have any financial institutions ever turned you down or offered unacceptable terms when you applied for a business loan?

   1. Yes, turned down _____ (Go to Q. 5a)
   2. Yes, unacceptable terms_____ (Go to Q. 5b)
   3. No_____ (Go to Q. 7)

5a. What were the reasons given?
   a. location of business _____
   b. type of business _____
   c. collateral insufficient_____
   d. other _____

5b. What were the unacceptable terms?
   a. downpayment too large _____
   b. interest rate too high _____
   c. excessive collateral requirement_____
   d. other _____

(SKIP QUESTION 6 IF ANSWERS IN BOTH QUESTIONS 4 & 5 ARE NEGATIVE)

6. Do you think the location of your business has anything to do with the troubles you have had in arranging financing for your business?

   1. Yes_____ 2. No_____

7. In the next two years, would you like to apply for a loan either for expansion, improvement, relocation or buying another facility?

   1. Yes_____ A1. For the purpose of: a. expansion _____ b. improvement_____ c. relocation_____ d. buying another facility_____ e. other _____
   2. No _____

(Business)

A2. How much money would you need for a loan?
$____________

8. Have you ever been turned down or offered excessive premiums from insurance companies?

   1. Yes_____ A1. I was: a. turned down_____
      b. offered excessive premium_____

   A2. Do you think the location of your business had anything to do with your troubles in getting insurance?

   2. No _____

   a. Yes_____ b. No_____

9. What changes in city, state or federal services do you think are necessary to attract more businesses to your area?____________________

JUST FOR CLASSIFICATION PURPOSES:

10. How many employees do you have?__________

11. (IF NECESSARY): What is your firm's major product or service?__________

12. Location of firm:____________________________

FINANCIAL INSTITUTIONS

Mortgage Loans (If Applicable)

1. If a depositor in your institution wanted to buy a $9,000 house (in one of the older, declining areas of Lincoln) (in the area east of 42nd Street), and if he were a qualified borrower, what factors would you consider in making a straight conventional loan?

(If Not Mentioned)

1a. Would the age of the property be a factor in determining whether the loan is made?

____Yes
____No

If yes, is there a maximum age beyond which you would not make the loan?

____Yes
____No

If yes, what is it? ____years.

1b. Would the condition of the property be a factor in determining whether the loan is made?

____Yes
____No

If yes, what would the condition of the property have to be before you would not make the loan?

1c. Would the specific location of the property within (an older, declining area) (the area east of 42nd Street) be a factor in determining whether the loan is made?

____Yes
____No

If yes, please explain.

1d. Would there be a minimum loan amount?

____Yes
____No

If yes, please explain.

Terms of the Loan

1e. Would the age and condition of the property be a factor in determining the terms of the loan (e.g., length of loan, points, downpayment)?

____Yes
____No

If yes, please explain.

(Financial Institutions)

1f. Would the value of the property be a factor in determining the terms of the loan?

____Yes
____No

If yes, please explain.

1g. If this house were located elsewhere in the city, would the terms of the loan be different?

____Yes
____No

If yes, please explain.

Home Improvement (If Applicable)

2. If a depositor in your institution wanted a conventional $1,500 home improvement loan for a house valued at $9,000 located (in one of the older declining areas of Lincoln) (in the area east of 42nd Street) and if he were a qualified borrower, what factors would you consider in making the loan?

(If Not Mentioned)

2a. Is there any set loan-to-value ratio you apply for determining whether to grant a home improvement loan?

____Yes
____No

If yes, please explain.

2b. Would the fact that the property is located in (an older, declining area) (the area east of 42nd Street) be a consideration in determining whether the loan was made?

____Yes
____No

If yes, please explain.

2c. Would the specific location of the property within (the area) (the area east of 42nd Street) be a factor in determining whether the loan was made?

____Yes
____No

If yes, please explain.

Terms of the Loan

2d. Would the age and condition of the property be a factor in determining the terms of the loan (e.g., interest rate, repayment period)?

____Yes
____No

(Financial Institutions)

2e. Would the value of the property be a factor in determining the terms of the loan?

____Yes
____No

2f. If the house were located elsewhere in the city would the terms of the loan be different?

____Yes
____No

If yes, please explain.

Business Loans

3. If a depositor in your institution wanted a $50,000 loan to purchase a commercial structure (in an older, declining area of Lincoln) (in the area east of 42nd Street), what factors would you consider in making the loan?

(If Not Mentioned)

3a. Would the fact that the property is located (in an older, declining area) (east of 42nd Street) affect your decision to grant the loan?

____Yes
____No

If yes, please explain.

3b. Are there (some older, declining areas) (and areas east of 42nd Street) in which you would be more likely to refuse the loan request than in others?

____Yes
____No

If yes, which areas?

3c. Would the terms of the loan be different depending upon the specific location of the business?

____Yes
____No

If yes, which terms would be different and for which areas?

4. The Rutgers University Center for Urban Policy Research recently interviewed 60 lenders and asked them what strategies they felt would encourage greater urban lending. The following changes were favored (hand list). As you read the list, would you indicate whether you favor the items for encouraging greater urban lending in the (older, declining areas of Lincoln) (area east of 42nd Street). Which of these would you most favor?

____1. Faster-cheaper mortgage foreclosure procedures especially for abandoned or abused properties.
____2. Homeowner and management counselling.
____3. Property tax abatement--deferment for housing rehabilitation.

(Financial Institutions)

____4. State-local demolition of abandoned-deteriorated properties.
____5. Government encouragement of resident versus absentee landlords.
____6. Improved FHA-VA mortgage insurance.
____7. Raising the usury ceiling on urban mortgages.
____8 Governmental job training programs in urban neighborhoods.

5. Is there anything else you think is necessary to encourage more housing and business investment in the older, declining areas of the city?

6. Do you know of any city, state, or federal governmental regulations or practices that may be acting as barriers to investment in the deteriorating areas of the city? What are they?

7. Is there anything else the city, state, or federal government should do to encourage more urban lending in the (older, declining areas of Lincoln?) (area east of 42nd Street?)

(If Not Previously Mentioned)

7a. Do you think any changes in property tax policies would increase investment in these areas?

____Yes
____No

If yes, what are they?

8. The following list represents the most common forms of redlining. As you read the list, are any of these methods being practiced by any financial institutions in (Lincoln?) (Omaha?)

____Yes
____No

If yes, which methods and in which areas?

	Yes	No
1. Requiring down payments of a higher amount than are usually required for financing comparable properties in other areas;	____	____
2. Fixing loan interest rates in amounts higher than those set for all or most other mortgages in other areas;	____	____
3. Fixing loan closing costs in amounts higher than those set for all or most other mortgages in other areas;	____	____
4. Fixing loan maturities below the number of years to maturity set for all or most other mortgages in other areas;	____	____
5. Refusing to lend on properties above a prescribed maximum number of years of age;	____	____
6. Refusing to make loans in dollar amounts below certain minimum figure, thus excluding many of the lower-priced properties often found in neighborhoods where redlining is practiced;	____	____

(Financial Institutions)

	Yes	No
7. Refusing to lend on the basis of presumed "economic obsolescence" no matter what the condition of an older property may be;	____	____
8. Stalling on appraisals to discourage potential borrowers;	____	____
9. Setting appraisals in amounts below what market value actually should be, thus making home purchase transactions more difficult to accomplish;	____	____
10. Applying structural appraisal standards of a much more rigid nature than those applied for comparable properties in other areas;	____	____
11. Charging discount "points" as a way of discouraging financing.	____	____

9. Some cities and states have adopted laws which require financial instituions that are bidding for government deposits to disclose geographical lending and deposit information. Do you think that such a law would stop or reverse the trend of disinvestment that is occurring in some areas? Why? ____________

    ____

    Would you be in favor of such a law? ____________________

    Why? ____

    Should a pledge by financial institutions not to discriminate on a geographical basis in the granting of loans be a prerequisite for receiving governmental deposits? ____

    Why? ____

10. Some cities have established a committee consisting of lenders and public officials to review claims of unfair or unreasonable denial of mortgages with the authority to place loans among member firms if the claims are substantiated. Would you be in favor of such an ordinance? ____________________

    Why? ____

REALTORS

OMAHA ONLY

1. Approximately what proportion of your sales are in the area east of 42nd Street?

2. Are there parts of this area in which you would prefer not to have any listings?

LINCOLN ONLY

1. What do you consider the deteriorating areas of Lincoln?

2. What are the causes of this deterioration?

ALL

3. Do you know of any cases where a sale has not been made because a bank rejected a loan application or because they made the terms unattractive due to the location of the property?

   If Yes: In which area did they do this? (Probe to get specific area).

   If Yes: How did they do this?

4. Do you know of any cases where a sale has not been made because a bank rejected a loan application or because they made the terms unattractive due to the price or age of the house?

   If Yes: What are those limits?

   If Yes: How did they do this?

5. If No to Question 3 and Question 4: Do loan terms vary with either location, price, or age of the unit?

   If No: Is there any particular reason these practices do not occur here since Congressional testimony indicates it is practiced in other cities?

6. What are the factors that determine the loan terms you can get from a financial institution on a property you are handling?

   (Probe if necessary: Is location a factor?)

7. What barriers do you think exist to selling property in the deteriorated areas? (Probe)

   (a) What about property taxes? Zoning or building codes? City services?

8. What should be done to encourage more housing and business investment in the deteriorating areas of the city?
   (Probe: What should the state do? City? Realtors?

RURAL CITIES AND TOWNS

Government Officials, Residents and Businessmen

Name____ Date______________

Community____

1. Do you know of anyone who has tried to get a loan from a financial institution for the purchase of property or property improvement in the last two years?

_____A. Yes. _____(1) Purchase. _____(2) Improvement.
_____B. No. (Go to Q. 4)

2. Did any financial institution turn them down in their loan application?

_____A. Yes. What reasons were given?______________________________

_____B. No.

3. Did any financial institution offer unacceptable terms?

_____A. Yes. What were they?
_____(1) Interest rate too high
_____(2) Downpayment excessive
_____(3) Length or repayment period too short
_____(4) Monthly payment too high
_____(5) Not a depositor
_____(6) Other (Please list)______________________________

_____B. No.

4. Do you know of any financial institutions that refuse to make loans in rural communities or that make the terms of the loans so unattractive as to discourage housing and/or business investment activity in rural communities?

_____A. Yes, refuse to make loans. What reasons are given?______________

_____B. Yes, unattractive terms. What were these terms?
_____(1) Interest rate was too high.
_____(2) Downpayment too large.
_____(3) Excessive collateral required.
_____(4) Other (Please specify)______________________________

What reasons are given?______________________________

_____C. No.

5. In your judgment, are financial resources adequate to meet the needs for housing and business investment in your community and in small neighboring communities and rural areas?

   _____A. Yes.
   _____B. No.
   _____C. Please explain____

6. What do you think is necessary to encourage more housing and/or business investment in rural communities?____

7. In your opinion, what factors would stimulate housing and business investment in rural communities?

   _____A. Improvement in public services and facilities (e.g., police/fire protection, streets, water, sewer and other public utilities.)
   _____B. Changes in zoning or zoning policy.
   _____C. Adoption and/or enforcement of building, electrical, heating, plumbing and housing codes.
   _____D. Other____

8. Do you know of any existing city regulations or practices that might be hampering housing and business investment in rural communities?

   _____A. Yes. What are they?____

   _____B. No.

9. Is there anything else cities could do to encourage more housing and business investment in rural communities?

   _____A. Yes. What?____

   _____B. No.

10. Do you know of any existing county regulations or practices that might be hampering housing and business investment in rural communities?

   _____A. Yes. What are they?____

   _____B. No.

11. Is there anything else counties could do to encourage more housing and business investment in rural communities?

   _____A. Yes. What?____

   _____B. No.

12. Do you know of any existing state policies or practices that might be hampering housing and business investment in rural communities?

   _____A. Yes. What?____

   _____B. No.

13. Is there anything else the state government could do to encourage more housing and business investment in rural communities?

    ______A. Yes. What? ______________________________

    ____

    ______B. No.

14. Do you know of any existing Federal policies or practices that might be hampering housing and business investment in rural communities?

    ______A. Yes. What are they? ______________________________

    ____

    ______B. No.

15. Is there anything else the Federal government could do to encourage more housing and business investment in rural communities?

    ______A. Yes. What? ______________________________

    ____

    ______B. No.

16. Would you be in favor of a state law requiring financial institutions to disclose lending and deposit information relative to rural and urban areas in order to receive state deposits?

    ______A. Yes.
    ______B. No.
    ______C. Please Explain. ______________________________

    ____

RURAL CITIES AND TOWNS

Financial Institutions

Name____ Date______________________

Community____

1. If a person wanted to buy a house in your community and if he were a qualified borrower, which of the following factors would you consider most important in making a straight conventional loan?

_____A. The age of the house
_____B. The condition of the house
_____C. The location of the house
_____D. The market value of the house
_____E. Other (Please specify)______________________________________

2. If the borrower were from a small neighboring community or rural area, would you rate these factors differently?

_____A. Yes. How?____

_____B. No.

3. What are your standards for determining who is a qualified borrower?__________

4. Which of the following factors would you consider in determining the terms of the loan (e.g., length of loan, points, downpayment?)

_____A. The age of the house
_____B. The condition of the house
_____C. The location of the house
_____D. The market value of the house
_____E. Other factors (Please specify)______________________________

5. If the borrower were from a small neighboring community or rural area would you rate these factors differently?

_____A. Yes. How?____

_____B. No.

6. If a person wanted a conventional home improvement loan and if he were a qualified borrower, what are the major factors you would consider in making the loan?____

7. Is there any set loan-to-value ration you apply for determining whether to grant a home improvement loan?

   ______A. Yes. What is the ratio?____________
   ______B. No.

8. If a person wanted a conventional loan to purchase a commercial structure in your community what are the major factors you would consider in making the loan?____

   ____

   ____

9. If the borrower were from a small neighboring community or rural area, would those factors be different?

   ______A. Yes. How?______________________________________

   ____

   ______B. No.

10. What do you think is necessary to encourage more housing and/or business investment in rural communities?______________________________

    ____

11. Do you know of any existing city regulations or practices that might be hampering housing and business investment in rural communities?

    ______A. Yes. What are they?______________________________

    ____

    ______B. No.

12. Is there anything else cities could do to encourage more housing and business investment in rural communities?

    ______A. Yes. What?______________________________________

    ____

    ______B. No.

13. Do you know of any existing county regulations or practices that might be hampering housing and business investment in rural communities.

    ______A. Yes. What are they?______________________________

    ____

    ______B. No.

14. Is there anything else counties could do to encourage more housing and business investment in rural communities?

    ______A. Yes. What?______________________________________

    ____

    ______B. No.

15. Do you know of any existing state policies or practices that might be hampering housing and business investment in rural communities?

    ______A. Yes. What are they?______________________________

    ____

    ______B. No.

16. Is there anything else the state government could do to encourage more housing and business investment in rural communities?

    _____A. Yes. What?____

    _____B. No.

17. Do you know of any existing Federal policies or practices that might be hampering housing and business investment in rural communities?

    _____A. Yes. What are they?_____________________________________

    _____B. No.

18. Is there anything else the Federal government could do to encourage more housing and business investment in rural communities?

    _____A. Yes. What?____

    _____B. No.

19. Would you be in favor of a state law requiring financial institutions to disclose lending and deposit information relative to rural and urban areas in order to receive state deposits?

    _____A. Yes.
    _____B. No.
    _____C. Please explain____

20. The following list represents the most common methods used by financial institutions to avoid making what they consider to be undersirable loans.

    A. As you read the list, are any of these methods being practiced by any financial institutions in your community?

	Yes	No
(1) Requiring down payments of a higher amount than are usually required for financing comparable properties in more urbanized areas;	___	___
(2) Fixing loan interest rates in amounts higher than those set for all or most other mortgages in more urbanized areas;	___	___
(3) Fixing loan closing costs in amounts higher than those set for all or most other mortgages in more urbanized areas;	___	___
(4) Fixing loan maturities below the number of years to maturity set for all or most other mortgages in more urbanized areas;	___	___
(5) Refusing to lend on properties above a prescribed maximum number of years or age;	___	___

(6) Refusing to make loans in dollar amounts below a certain minimum figure; ___ ___

(7) Refusing to lend on the basis of persumed "economic obsolescence" no matter what the condition of an older property may be; ___ ___

(8) Stalling on appraisals to discourage potential borrowers; ___ ___

(9) Setting appraisals in amounts below what market value actually should be, thus making home purchase transactions more difficult to accomplish; ___ ___

(10) Applying structural appraisal standards of a much more rigid nature than those applied for comparable properties in more urbanized areas; ___ ___

(11) Charging discount "points" as a way of discouraging financing. ___ ___

B. Are any of these methods being practiced with respect to loans on commercial structures as well as home loans?

_____(1) Yes. Which? (Please list)______________________________

____

_____(2) No.

C. Are any of these methods being practiced with respect to loan applications from people in small neighboring communities or rural areas?

_____(1) Yes. Which? (Please list)______________________________

____

_____(2) No.

GOVERNMENTAL OFFICIALS

1. Do you know of any banks and/or savings and loan institutions that, as a matter of policy or practice, refuse to make loans in certain areas of a city or that make the terms of the loans so unattractive as to discourage investment activity in those areas?

   ____

   If Yes: In what specific areas does this occur?______________

2. Some cities in the United States have adopted ordinances which require financial institutions that are bidding for city deposits to disclose geographical lending and deposit information. Do you think that such an ordinance would stop or reverse the trend of disinvestment that seems to be occuring in some areas?

   ______________Why?______________

   (a) Would you be in favor of such an ordinance?______________

       Why?______________

   (b) Should a pledge by financial institutions not to discriminate on a geographical basis in the granting of loans be a prerequisite for receiving city deposits?

   ______________Why?______________

3. Some cities have established a committee consisting of lenders and public officials to review claims of unfair or unreasonable denial of mortgages with the authority to place loans among member firms if the claims are substantiated. Would you be in favor of such an ordinance?__________Why?______________

4. Do you think an improvement in public services (e.g,, police/fire protection, street improvements, sewer and public utility services) would stimulate housing and business investment in these areas?______________

   Why?______________

5. Do you think a change in zoning or zoning policy or practice would stimulate investment in these areas?______________

   Why?______________

6. Do you think increased code enforcement (e.g., housing, building, health codes) would stimulate or discourage investment in these deteriorating areas?

   ____

7. Would an official City Neighborhood Improvement policy encourage investment in the deteriorating areas?______________

8. Are there any other city regulations or practices that might serve as barriers to housing and business investment in declining areas?______________

9. Is there anything (else) the city can do to provide incentives to the granting of loans in declining areas?__________If Yes: What is that?__________

   ____

(Government Officials)

10. Are there any county regulations or practices that might serve as barriers to housing and business investment in declining areas? ____________________
____

11. Do you know of any state policies or practices that might serve as obstacles to housing and business investment in particular geographical areas? ____

12. Would you be in favor of a state law requiring financial institutions to disclose geographical lending and deposit information in order to receive state deposits? ___________________________ Why? __________________________
____

13. Do you know of any federal policies that might serve as obstacles to housing and business investment in particular geographical areas? _______
____